CREDIT and FINANCIAL MANAGEMENT

Vol. 34, No. 10 OCTOBER, 1932 Established 1898

Nothing in the Hat –

— and nothing up our sleeve!

Inspection reporting requires no legerdemain, occult power or psychic ability. It is simply a service rendered by an organization equipped to provide dependable information on character, hazards and credit. Hooper-Holmes inspectors are human. They are able to provide the information you need because they have been trained to the work and have available the co-ordinated operations of a nation-wide network of branch offices.

The extensive clientele of insurance companies, credit departments and commercial accounts served by the Hooper-Holmes Bureau is interested in results. Timely information built upon an inspection made after the receipt of the order brings last minute advices of the character and credibility of the subject. Speed in gathering and transmitting the information along with its uniform dependability contributes in providing satisfactory results. A wide range of reporting forms individualizes each report and provides the particular information required.

These are the chief factors in producing inspection reports. We want you to know our business so that we may aid your business in avoiding unnecessary items of loss.

The nation-wide facilities of The Hooper-Holmes Bureau are devoted to the compiling of Moral Hazard Inspection Reports for insurance underwriting, credit, commercial and employment purposes and Claim Reports. Address inquiries to 102 Maiden Lane, New York.

★ **THE HOOPER-HOLMES BUREAU, Inc.** ★

CONTENTS FOR OCTOBER 1932

Looking ahead

An interview with Merlin H. Aylesworth of the National Broadcasting Company by Chester H. McCall, will feature our November issue.

Supporting this article, we will carry a treatise on Business Service, an analysis of "The New Competition" by Shirley E. Haas, and a paper by Charles F. Kettering, President of the General Motors Research Corporation of Dayton, Ohio, besides the regular monthly features.

Our cover

The kaleidoscopic features of the current election campagn are well to the fore today as the campaign swings into the homestretch. Some of its chief points are visualized in this camera-study by Paul Haase from the Old Masters' Studio, N. Y., including such factors as the bonus, beer, water power, the railroads, and the farm mortgage situation.

CREDIT and FINANCIAL MANAGEMENT

CHESTER H. McCALL
Editor and Publisher

Volume XXXIV Number X

Paul Haase
Managing Editor

F. M. Ferguson
Business & Circulation Manager

Clifford T. Rogers
Advertising Manager

Charles B. Blount
New England Representative

Philip J. Gray
Western Advertising Manager

Official Publication, National Association of Credit Men, 1 Park Ave., N. Y.

Meet Sisyphus!

Meet Sisyphus!

Greek legend tells us that Sisyphus died and went to Hades. Before he died he told his wife that when he was gone she was to offer the usual sacrifice to the dead. As soon as he became a citizen of the lower regions, his wife neglected her duty. He persuaded the chief to permit him to go back to the upper world to punish her. But when he returned to Corinth, he allowed his wife to go unpunished and lived happily with her for many years, dying of old age.

When he returned once more to Hades, the big boss quickly decided Sisyphus would be punished. He was compelled to roll a huge rock up a steep hill, but before he reached the top of the hill the stone always rolled down. Then Sisyphus had to begin all over again. Over and over and over again, he pushed the stone up the hill only to have it roll down before he reached the top. Perhaps, he is still doing it today.

This story of Sisyphus has its counterpart in almost every phase of economic activity today. We push a cumulative volume of expanding business, Sisyphus-like, up to a new peak of prosperity only to have it roll down again into a trough of depression. The repetition of the process accounts for our business cycles. The same process takes place in specific industries and individual companies. The ghost of Sisyphus walks with us today.

In the field of fire insurance, fire prevention and fire protection there has been a constant, constructive process of eliminating Sisyphus tendencies. Throughout the past two years of economic turmoil, fire protection has made rapid strides ahead. It is approaching the goal of a science.

Through the medium of sound insurance every home, factory and building in this country can be protected against the heavy penalty of fire loss. In case the fire demon levels a building to the ground, the insurance company stands ready to pay the owner for his economic loss. People generally think of fire insurance only in terms of payments for loss in case of fire, but fire insurance means insurance and protection against fire as well as the payment for losses in case of fire. There is little doubt that the fire insurance company's first duty to society and to business is to do everything it can to make the country safe against fire. The payment for fire losses should be secondary as an economic and moral responsibility on the part of fire insurance companies. Fire prevention and fire protection must come first!

The fact that fire insurance companies have set up two great protective organizations to fight scientifically the $500,000,000 annual fire loss of this country is ample proof that fire insurance company executives are in entire sympathy and accord with the creed set forth in the preceding paragraph.

The National Board of Fire Underwriters, with its ramified fire prevention activities, and the National Fire Protection Association are two of the most constructive and practical forces in business today. Many of the largest insurance companies have set up special departments to deal with the fire prevention and protection problems of their policy holders. Through these agencies, fire insurance companies have pushed the great stone of protective and preventive management up the mountain toward a high peak of achievement. This great cumulative force must not be allowed to roll down hill Sisyphus-like. It is up to business executives to support the fire insurance companies and fire protection organizations to the limit if the good work which has already been accomplished is to be held at its present level and moved on up the hill to still higher attainments.

The National Association of Credit Men since February, 1932, has conducted a nation-wide prevention program. This program has operated through its 136 coordinated offices, each office assuming the definite responsibility of taking the leadership in fire prevention activities in its community.

Notwithstanding the fine work which has already been done in fire prevention and fire protection, this country is still staggering under a gigantic annual fire waste of $500,000,000. This waste is tangible and concrete. It is a waste which can be eliminated by one-half, at least, if every business executive assumes his patriotic responsibility in his company and in his community by fostering and promulgating proper preventive and protective measures. Here is a challenge that must be met. Constructive fire prevention provides one of the easiest channels for economic savings amounting into the hundreds of millions of dollars. Across the vast horizon of this great country stretch the flaming, challenging words "$500,00,000 ANNUAL FIRE LOSS." There are years of successful accomplishment upon which to base a greater renewed effort in this work. This is no time for men with Sisyphus tendencies. Meet Sisyphus and then meet the challenge!

Chester H. McCall

The business

a compilation of business and

Straws in the wind

Blow hot, blow cold—the following straws indicate the strength and direction of the trade winds in recent weeks:

BANK CLEARINGS: Clearings at banks in principal cities throughout the country during the week ended September 14 aggregated $4,382,400,000, a reduction of 38.2 per cent from the like week of 1931, according to Dun's review. At New York City clearings were $3,036,091,000, off 36.3 per cent, while for the cities outside of New York City, the total was $1,346,309,000, or 42.1 per cent less.

BANK SUSPENSIONS: Only 85 banks with deposit liabilities of $34,730,000 failed in August, according to the Federal Reserve Bulletin, compared with revised figures of 131 failures in July with deposit liabilities of $49,877,000.

BUILDING CONSTRUCTION: There was an increase of 4.5 per cent in the estimated cost of all building operations, according to reports of building permits received by the Bureau of Labor Statistics of the United States Department of Labor from 352 identical cities of the United States having a population of 25,000 or over for the months of July 1932 and August 1932. The estimated cost of all building operations for which permits were issued in these cities during August was $37,137,073. The number of all building operations increased 18.7 per cent, comparing the two periods. Comparing August with July, 1932 there was an increase of 22.5 per cent in the number and an increase of 20.6 per cent in the estimated cost of new residential buildings.

BUSINESS FAILURES: Business failures increased after declining quite precipitously for several weeks. The total number for the week ended September 15 rose from 384 to 469, a gain of 22.1 per cent. A rise of only 12.8 per cent is normally expected at this time, therefore the seasonally adjusted index increased to 135.3 per cent of the 1928-30 average. This compares with 124.9 the previous week and 123.5 last year. For the first time in several weeks, the failures for the week, 469, compared unfavorably with the 428 recorded during the corresponding week last year. Liabilities, in contrast to actual number, continued the drop of the previous week, falling off 34.4 per cent.

COMMODITY PRICES: Average commodity prices in this country declined to 62.9 in the middle of September, according to Professor Irving Fisher's index, compiled on the basis of average 1926 values of 100. The purchasing power of the dollar rose to 58.9 per cent under the 1926 index compared with 58.3 previously. English commodity prices for the time had an average of 64.3.

OIL PRODUCTION: The oil industry, recuperating from last summer's flood of oil in East Texas, is again threatened with relapse. Rescued before by the militia, it cannot this time depend on state or federal intervention to avert the impending crisis. Its present problems, falling gasoline consumption and mounting stocks, can be solved only by the thorough cooperation of producers. A great deal has been said about the spirit of cooperation existing in the petroleum industry. Now, if ever, is the time for it to assert itself.

STEEL PRODUCTION: Although there was only a slight expansion shown in steel mill operations, the trade retained the optimism evidenced the last several weeks. During the late summer, it was generally believed the middle of September would witness a marked upturn, to be sustained by a growing volume of orders, until the industry would reach a 50 per cent rate of operations early in 1933. It is now believed the advance will come the latter part of October.

"It has been suggested from Democratic headquarters that the recent rise in prices reflects a joyous anticipation of Governor Roosevelt's election, and from Republican circles we are asked to believe that President Hoover is, with superb strategy, directing a victorious war against the depression. It would be a painful commentary upon our capacity to learn wisdom from experience if we allowed ourselves to entertain such naive versions of the course of events. Were they seriously believed we should be founding hopes of recovery upon political magic rather than upon a realistic view of what has occurred and of what still remains to be done," states Walter Lippmann in the New York *Herald-Tribune*.

"The rise in prices has followed closely upon a number of events which in their total effect appear to have arrested the forces of deflation. No one, I think, can say which of these events is the most important, and in attempting to name them I do not pretend to be exhaustive. But certainly the following are among the more significant developments which preceded and contributed to the renewal of confidence:

"In the United States the gold standard and the general credit structure have been successfully defended. This was done by the defeat of the bonus and of other inflationary legislative proposals, by the demonstration in favor of a balanced budget, and by the action of the Reconstruction Finance Corporation and the Federal Reserve System in protecting the banks against the consequences of hoarding and the flight from the dollar. The combined effect of all these measures was to assure the world that the dollar was a secure medium in which to invest and even to speculate. For this result the President, Secretary Mills and Governor Meyer are entitled to great credit.

"But there were equally important events elsewhere. Foremost among them must be numbered the astounding success of the British conversion

thermometer:

financial trends and indications

loan, by means of which the British Government radically reduced the interest on a great part of its national debt and thus not only saved money for the taxpayer but in the long run for all producers who are financed through the London money market. By this measure one of the principal costs of industry, the cost of new capital, has been reduced.

"No less important was the virtual abolition of reparations at the Lausanne conference. As a result, one of the most depressing elements in the world economy, the effort of Germany to balance her payments, has been removed. The whole world has assumed, regardless of what politicians say now, that the war debts to America will be dealt with no less conclusively. As the combined effect of debt payments and reparations was profoundly deflationary in that the debtor nations could pay only by giving up gold or dumping goods, the belief that this system is ended has given enormous relief.

"These three events are the chief contributions by governments. An even greater contribution has been the sacrifice by millions of individuals in liquidating the boom and in readjusting their affairs.

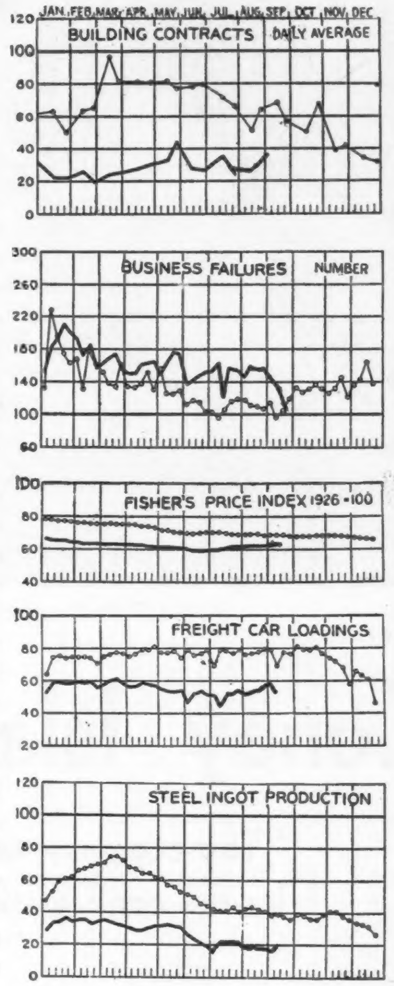
"It is surely not unimportant, for example, that what was probably the low point in the depression should also have been the point where there almost disappeared the "favorable" balance of trade of the two chief creditor powers—that is to say, of France and the United States. One of the great delusions of recent years has been the belief that we could be a creditor of the world and yet sell much more than we bought. During the depression that delusion has gradually been sweated away. By the loss of most of our export trade in manufactures we are once again in a workable relationship with the rest of the world. The effort of our customers and debtors to pay what they had borrowed and bought, added to what they owed on the war debts, was profoundly deflationary. The situation has been corrected by the rough-and-ready method of default on some of the debt and of reducing our export balance drastically. It has been expensive, and the domestic consequences will be with us for a long time, but from the point of view of the world economy it has been effective.

"Within this country and in others there has been taking place a stupendous readjustment through failures and bankruptcies, through the curtailment of production, the cutting of wages and salaries, through economies and reorganization. The result is that a large number of producers are now in a position to make money at lower prices and on smaller volume than they needed before they went through the deflation. At the same time there is an accumulated demand for goods that have to be replaced, there has been a corresponding fall in prices of consumers' goods and, owing to the long suspension of activity, there is in most industries no impossible glut of goods.

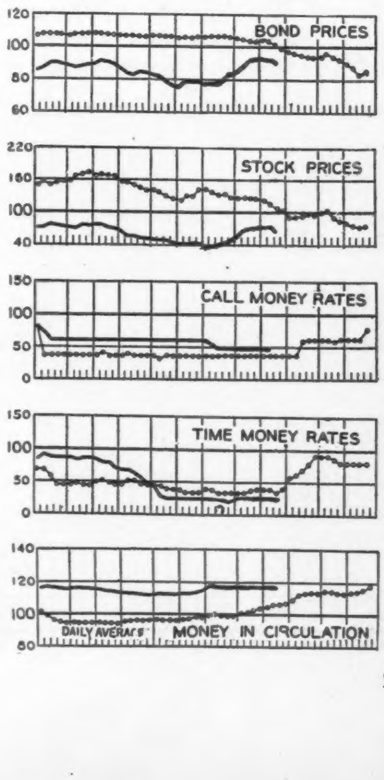
"Thus with the removal of the great deflationary forces centering in the threat to the American dollar, in reparations and war debts, in the unbalanced creditor position of the United States and France, and in the exaggerated surpluses, the effects of the readjustment which has been taking place among the producers can begin to be felt. The gap between prices and costs, which was becoming wider as the deflation proceeded, is closing up as the deflation is arrested. The gap is closing because costs have been reduced and because the pressure on prices has been (*Continued on page 36*)

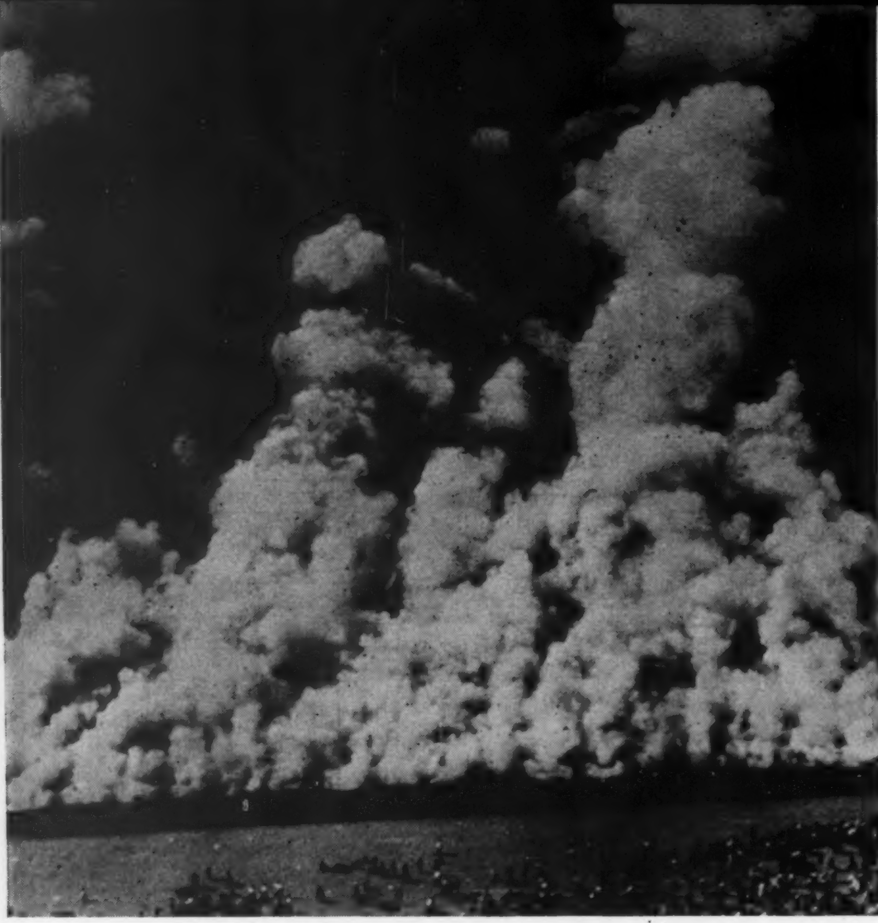
With the exception of Fisher's Index, U. S. Dept. of Commerce chart (right) have base 1923-25 = 100.

BUSINESS INDICES



FINANCIAL INDICES





by WALTER H. BENNETT,
Secretary-counsel,
National Association of Insurance Agents

Coney Island ablaze!

"The economy wave of today may be the conflagration of tomorrow."

Coney Island ablaze! Four square blocks in the heart of America's greatest playground gutted by flames! Fire department hampered by parked automobiles. Water pressure down. Property value loss estimated at from two to five millions of dollars. Insurance of less than one million. All this happened in July of the year 1932—not in the dim and distant past when modern construction and modern fire fighting equipment were unknown.

Such a fire knows no discrimination. Substantial permanent homes went down with jerry-built summer cottages. The most modern of apartment buildings were razed as well as bath houses of flimsy construction.

It is a strange anomaly that just a few short weeks before the fire occurred, the Coney Island Chamber of Commerce made protest to the New York Fire Insurance Exchange that the rates were too high. It cited particularly the example of the Saltair Apartment building, claiming it was not subject to a conflagration loss because of its superior construction and absence of the exposure hazard. The Saltair Apartment went down in flame along with its more humble neighbors.

How much better would the Chamber of Commerce have served the people if, instead of assuming underwriting knowledge and dictating a rate reduction, it had busied itself with heeding the prophetic warning of the report of the National Board of Fire Underwriters after its survey of 1929:

"The major portion of Coney Island lying between Ocean Parkway and Thirty-Seventh possesses a conflagration hazard of pronounced degree. During the summer season the congestion of people and automobiles occurring particularly over week-ends, introduces a most serious state of congestion and would greatly obstruct fire department operation; in addition, the automobiles would tend to spread the fire."

I call attention to this tragedy to prove that insurance rates are made scientifically, with due regard for construction, fire fighting facilities and the exposure hazard. The layman, however well-intentioned, had best leave the subject of rates to the experts, realizing that the state itself appoints a guardian, in the superintendent of insurance, to watch over the welfare of the public.

There is another lesson in this conflagration, that in times of financial stress, insurance, always important, becomes an outright necessity. The Coney Island conflagration swept away the entire possessions of many of its uninsured.

The competent insurance agent is spending his time and his energy in pointing out to the business interests of the nation that any so-called economy in the matter of coverage is a short-sighted policy which may wreck the entire business foundation. Fortunately, the major portion of the buildings of the country are covered, although in many cases the coverage is inadequate. And only 25 per cent of the automobiles that travel the highways, many of them bringing death and destruction in their wake, can offer indemnity in the way of a liability policy in a sound company.

It is not to be expected that the insurance agent has not reaped a due share of the unstable economic conditions of the past few years. In 1929, the fire insurance premiums totalled a billion dollars, in round figures. They dropped the next year to nine hundred million, in 1931 to eight hundred million, and the estimate for 1932 is between seven and seven hundred and fifty million dollars. Operating expenses are pitched on the billion dollar figure, and it takes time to bring them down to the present level.

Meanwhile, values have decreased, payrolls gone down, government continues to make deeper inroads on all businesses, including insurance, and collections are so hard that many an agent who formerly devoted his entire time to production of new business and to furnishing full service to his assureds must make of himself a collection agent. Where he is forced to carry accounts beyond the usual time limit, he must strain his own credit to pay his companies their balances, as the companies are not allowed to carry as admitted assets premiums unpaid after sixty days.

Inquiry made of agents in all sections of the country has brought the almost invariable reply that while the majority of manufacturers and home and automobile owners have not cancelled the most obvious forms of coverage, (although in some cases they have cut them to the bone) it is in the so-called side lines that the major reductions have come and in some cases, brought irreparable damage.

Take, for example, a manufacturing plant located in the Middle West. When time came for renewal of its policies, it continued its fire insurance, but decided it might well afford to take a chance on use and occupancy insurance. Despite all arguments the agent could muster—and he is of the best type of agent—the U. and O. business was ordered cancelled. Just one week from the day it was cancelled, the plant was destroyed by fire. The manufacurer's fire insurance made it possible for him to rebuild, but his product is seasonal in its nature, and the fire occurred just at the beginning of the season that demanded it. The owner was out of the market for the entire season, and he was out a cool hundred thousand dollars which would have been his if he had listened to the voice of his agent.

In pleasing contrast comes another experience in the same section. A mortgagee was forced to take over a small aeroplane factory, valued at approximately ten thousand dollars. A persistent agent, instructed to cancel a seventy-five hundred dollar tornado policy on the plant, succeeded after the fifth call in having the owner retain it. Then along came a windstorm which laid the buildings to the ground. The loss was total. The insured now appreciates that agency service is more than a name.

It is scarcely reasonable to believe that the lowering of the egg market would be the beginning of events leading up to a tragedy by fire, but from the South comes this true story. A poultryman owned a residence, garage and chicken ranch, valued at something like twenty thousand dollars. The price of eggs dropped and he decided he must drop something too. He chose fire insurance because he had never had a fire loss. Within sixty days, he did have a fire loss of fifteen thousand dollars, destroying within a few hours practically the entire savings of a lifetime.

A prominent agent in upper New York tells me that across his counters every day come requests for cancellation of risks from customers who ordinarily would not think of going without full coverage. The cancellation almost invariably is on such lines as burglary, liability, contingent liability, use and occupancy, sprinkler leakage, riot and civil commotion and similar lines, accompanied by reduction in fire coverage.

The so-called economy wave is playing havoc with business judgment in many instances. The trend of the times apparently is to undertake a percentage reduction all down the line, sometimes unnecessarily, and without thought of the ultimate consequences. If this disposition continues, it is safe to predict that the next twelve months will find many a formerly prosperous business in the hands of a receiver, simply because its several hazards were without protection.

Of all the lines of insurance over which a credit manager should be watchful, in my opinion, automobile public liability and property damage heads the list. Where the third party element is involved, where the driver is held responsible for injury or death of some other person, with the courts ever eager to grant bigger and bigger judgments, one automobile accident can prove disastrous. If credit is extended to a manufacturing concern, a mercantile or home owner, it should never be granted on the strict basis of value of the building, the amount of fire insurance carried, or the aggregate business of the applicant. The third party hazard must never be forgotten. In compensation insurance, this feature is cared for by the Workmen's Compensation Laws, under which a manufacturer is required to carry sufficient compensation insurance to care for the workman injured in his employ.

This is not so with automobile public liability. Here is an example: A man in business for himself lost most of his assets in the stock market crash. He did succeed in coming through with about twenty thousand dollars in cash, a home valued now at approximately ten thousand dollars, and some unimproved real estate—and he got a job. He decided to save money by cancelling his public liability insurance, and did save exactly thirty-seven dollars thereby. Shortly thereafter he was involved in a serious accident and the judgment against him approximated twenty-five thousand dollars. Things must look discouraging to him and his wife and their four children. They are discouraging, too, to a firm if it loaned him money on the basis of his actual holdings and income, without regard to third party claims.

The far reaching effects of failure to carry sufficient public liability insurance in sound stock companies is something to which the public must be educated. Recently the Department of Commerce of the United States made a survey of individual bankruptcies in the state of New Jersey during 1929 and 1930. It included a hundred and thirty-two cases, involving wage earners and professional men. Of this number, 26.6 per cent entered bankruptcy to avoid payment of judgments, approximately two-thirds of which grew out of automobile accidents. (*Continued on page* 40)

Air view of Coney Island ablaze.

Reconstruction financing

"Nobody need reassure us in winter that summer is coming . . . at midnight that the sun is going to rise in the morning.

"The panorama of panics in American history proves that inevitably good times follow bad.

"Panics are the result of mistakes, human mistakes . . . not the result of a working of a natural law, rather the violation of natural laws."

by **MAX B. NAHM,** Vice President, Citizens National Bank, Bowling Green, Ky.

To reconstruct a nation, nay a world, if you please, is a very difficult problem. There is no certain formula by which it can be done. There is so much that we do not know. We make so many mistakes and we hate to confess them.

An English philosopher, Thomas Carlyle, said, "If I make a mistake and change my mind, if I do not so declare to my people then I am a coward or a fool." There is so much to learn, and as Amos and Andy said, what they wanted to know is why hard times had to come right in the middle of the depression.

All panics are the result of mistakes, human mistakes. Panics are not the result of a working of a natural law, as we sometimes see in magazines, and newspapers, but rather the violation of natural laws, and fear will frequently transform what might be just a recession into a great depression.

Now, all panics are more or less alike.

A few days ago I had occasion to see the Resolutions passed in Frankfort, Kentucky, in 1819, following the Napoleonic War. They might have been written yesterday. Members of Congress frequently have quoted extracts from editorials and letters in the panics of 1837 and 1857 and they are quite appropriate today. But they all differ in two great respects. One is, this panic is world wide in its extent, whereas the others were more or less local in their application, and in the next place, in each and every one of the past panics they complained bitterly of high rates of interest, so high no business could exist and pay them, and in this one, because of the Federal Reserve the rates have been abnormally low.

Then, they are all alike in one respect. No one need to reassure us in the winter time that summer is coming after a while. No one need tell you at midnight that the sun is going to rise in the morning, and so the panorama of panics we have had in American history all tell us that inevitably good times will follow bad times. But in each and every one of these panics there were folks who said this is the worst one the world ever saw.

There was a man who was caught in the Johnstown Flood and from that time forward it became an obsession with him. He never thought about anything else, or talked about anything else, and when he died and went to Heaven there was on old man standing at the gate with a long beard. The man ran up to him and said, "Say mister, did you ever hear of the Johnstown Flood?" The old man looked at him with disgust, turned on his heels, walked away with contempt, muttering under his beard. The man said to an angel standing by, "Who was that old man," and the angel said, "That was Noah."

Why do we need reconstruction at all? Simply because of the destruction which occurred during and after the great war. That was after our great mistake.

Wars are such today that no nation can win one. Even the winners lose, as is the case with Japan.

In the last war there were 10,000,000 killed, there were 13,00,000 missing and there were 37,000,000 wounded. At the beginning of the war the international debt was $43,000,000,000 and at the end of the war it was $273,000,000,000, an increase of $230,000,000,000, and that is a loss of $230.00 a minute from the birth of Christ down to the present moment. Add to that the territorial damage, the property loss and the consequential loss running into this good moment, and you will see that easily the world lost the savings of a century in that four years of war.

We have begun setting up our reconstruction program. France said we have become inflation-mad, but they soon saw their mistake and set up a National Credit Corporation of their own.

Now, the whole thing turns on the definition of inflation and deflation. Inflation is the rising price of a commodity above the cost of production with a reasonable profit, to a higher point; and deflation is the drop from that higher point to the cost of production with a reasonable profit by the drop in price of a commodity. The drop in price of a commodity below the cost of production is not deflation, that is destruction of value, and a rise in price from that low point up to the cost of production, that is not inflation, that is restoration of value, or that new word which has not yet found its way into the dictionary, reflation; and in all the bills we have put out there is absolutely no new credit except that to the farmer. There is no inflation, but just the making available of past credits. That being the case there is

"Snapping the whip", from the Christian Science Monitor.

absolutely no reason whatever for any solvent bank breaking and they will not break.

Last October, the President of the United States got together some of the leading bankers and asked them to form a stop-gap for the conditions at that time, and told them if they would, when Congress met he had the promise of the leaders of both Houses that they would set up a corporation to take on the work, and at the suggestion of Leonard P. Ayres there was set up the National Credit Corporation. It had only twelve shares of stock, one for each of the twelve Federal Reserve Districts, but it issued $500,000,000 of debentures to be taken by the bankers in a voluntary subscription of 2 per cent on deposits or 10 per cent of the capital surplus, whichever was the less and the purpose was to discount those loans that were not eligible to the Federal Reserve.

There were only three calls on this money ever made. It started out borrowing, and contracting to loan $186,000,000 to 1210 banks. It worked beautifully in some sections, but there were other sections where it did not work so well because of the fact there was a loosely drawn guarantee in the bill to the effect that the banks of each district guaranteed the losses of the banks in that district and some of the banks took this seriously and exacted three times the amount of the loan in collateral and made it useless. There have been paid back six separate dividends to the extent of 65 per cent on the money paid in. There was only paid in $135,000,000 by the banks and there have been paid back $87,000,000.

As the President promised, when Congress got together, in a most patriotic manner on January 22 they passed the Reconstruction Finance Corporation Bill. There were seven Directors, three of them held office by virtue of their positions—Ogden Mills, Secretary of the Treasury, Eugene Meyer, Governor of the Federal Reserve, and Mr. Bestor, Farm Loan Commissioner, and then there were four others appointed by the President, one of whom was C. G. Dawes former Vice-President of the United States and Minister to the Court of St. James, and he resigned on the 7th of June, last. The salaries are $10,000 a year and the time limit of the corporation is ten years, after which it is turned over to the Secretary of the Treasury and he will wind it up.

The capital is $500,000,000 and it may issue $1,500,000,000 in bonds making it the $2,000,000,000 corporation you frequently hear talked of.

These bonds may run three to five years and not draw over 5 per cent. Two hundred and fifty thousand of them have been issued at 3½. They are exempt from taxation, except inheritance tax, and sur-tax and the bonds are not eligible for discount at the Federal Reserve.

This corporation was never set up tc make money. The first section shows that. The first section sets aside $50,000,000 to loan farmers who last year lost their crops because of drought or flood, and the only security asked is the growing crop. But the purpose of this corporation is to infuse courage into people of the United States, courage into the banks to go on and loan, courage to the insurance companies to loan cash surrender value of their policies, courage to building loan associations to loan on property, courage to the railroads to carry on, and it has done that.

The next section set aside $200,000,000 to be loaned to finance corporations, and at the suggestion of Melvin Traylor, President of the First National Bank in Chicago, to closed banks to help the 2,000,000 people who have their money locked up in closed banks, which it has helped to do.

These loans can not be over 5 per cent of the capital shown and there can be no foreign securities presented. Congress rightfully figured we have loaned too much money to foreign countries.

The third section has to do with loans to going banks and that has been magnificently handled. These loans have been made to key banks which could help other banks or the greatest number of people. The rate has been 5½ per cent, the time six months with renewal for six months, and can be carried farther with the consent of the President and the corporation.

It has been said the purpose of the reconstruction corporation has been to pour money into the hands of big banks. Ninety-two per cent of this money has gone into banks in towns of less than 100,000. Seventy-six per cent in banks in towns less than 10,000 inhabitants. Sixty-nine per cent. into towns less than (*Continued on page* 41)

Prepaid expense and current assets

How significant are prepaid expenses in the determination of current financial position? Is prepaid expense a current asset?

Here's how to dispel the problems that cause credit executives to become prematurely bald, insomnious, or gray haired.

by MYRON M. STRAIN,
Certified Public Accountant,
San Francisco, Cal.

In two previous articles I have endeavored to dispel certain groundless fears which, as a matter of prior observation, I had found to be causing premature baldness, gray hair, insomnia and domestic infelicity among credit men. The method employed was based upon the Freudian-psychotherapy of endeavoring to illuminate the basic foundations of these fears, and show them to be innocuous and cheery little matters, wholly incompetent, once they were recognized and identified, to support the indignation and appalled surprise which their outlines, dimly seen through an intellectual fog, have so often provoked. So far, I have tried to shed this enlightenment upon the two dreaded but harmless subjects of goodwill and appreciation. This month I shall bring the search light to bear on the matter of prepaid expenses, and their significance in the determination of current financial position.

I have a convenient text upon which to develop this theme in a fragment from an excellent address recently delivered by the vice-president of a famous Southern bank before a four-state meeting of certified public accountants. It was reported in full in one of the spring issues of "The Certified Public Accountant", the official organ of the American Society of Certified Public Accountants, and the excerpt in question is as follows:

"Prepaid expenses, often included in current assets, represents money already spent once and could not be spent again unless an insurance policy were cancelled, stationery or supplies of some kind were sold, and that is not done in the normal course of business".

For this reason, Mr. Vice-president holds that prepaid expense does not qualify as a current asset under a definition which he quotes as follows:

"Current assets consist of cash and those items that are convertible into cash in the normal course of business within one year, to meet current liabilities that are to be paid within one year."

I have been unable to ascertain the source of this definition. Most of the authorities who write accounting text books have been extraordinarily cagy about defining current assets at all, one of the most eminent of them having contended himself with observing that they consist, in effect, of items which are current. Nowhere, however, have I been able to find any mention of the one-year limitation on inclusions under this caption. There are cases in which it would raise almost insuperable difficulties, difficulties involved principally in slow inventories. Surely no one would insist on applying it to the inventories of manufacturers of tobacco products, for instance, but such inventories usually take two to three years to "turn over". Also our speaker overlooks, in his definition, the fact that current assets do not exist solely for the purpose of paying current debt. They must also finance payrolls and other current operating requirements and provide whatever funds are to be distributed to stockholders as dividends. It is for these reasons, as well as to provide for the time-lag in the realization of non-cash current assets, that most enterprises need a substantial excess of current assets over current liabilities.

All this, however, is mere passing comment. I do not need to file a caveat against the quoted definition in order to demonstrate, I hope, that, even judged by it, the gentleman's logic is precisely as solid as his grammar. He has, alas! fallen a victim to one of the most prevalent of the credit man's accounting obsessions, and he shows his complete lack of any rational basis for his aversion to a correct treatment of prepaid expense by attempting to dispose of the subject with an astounding non-sequitur. Prepaid expense, he says, "represents money already spent once and could not be spent again". What of it? Precisely the same thing could be said of inventories, or of investments of idle funds in United States Treasury bonds. No money spent for anything can be spent again, unless it is converted back into money again. Recognizing that some form of conversion might take place, however, our speaker refers to a cancellation of insurance or a sale of office stationery. The suggestion is exactly equivalent to a suggestion that the stock of merchandise in a department store should be regarded as realizeable only through wholesale auction. As the gentleman himself points out, this is simply not done "in the ordinary course of business". But it is none the less true that the conversion of prepaid expenses into cash does take place by the ordinary operation of business, just as certainly and surely as the conversion of inventories, and in the same manner.

Let us see how this is true. For the sake of simplicity, let us regard a manufacturing enterprise, and direct our at-

tention to its inventories. Going into its factory and storage rooms at any given time of any day, we will find these inventories in something of the following condition. In one category we will find a stock of raw materials, piled up and waiting for use. Next, we will find some of these materials that have had some work done to them, but which have not yet been turned into completely manufactured product. As raw materials, they have been spoiled, and they have no value unless the manufacuring process is finished. Finally, we have the fully manufactured product, ready for conversion into cash through sale.

Now what has happened to cause these differences between the various parts of the inventory? Let us think of it, primarily, as a series of accretions to the original raw materials. They have been taken out of the material stock and various things have been added to them—some labor by this mechanic, some power and manipulation through that machine, some shelter, in the process, by the factory building. After the operation has started, the material has begun to accumulate a whole series of additional costly services that are just as inherently a part of the final product (or work in process) as is the original raw material. There is labor in it, and a part of the machines and buildings, and a part of the superintending of the process, and a part of the services of maintaining the machines and buildings—insurance, taxes, rent, repairs, power, light, heat, etc. All of these services that have been put into the product are counted as part of the cost, in just the same way and to just the same extent as is the material, and all the work in process and all the finished product listed in our inventory is valued so as to reflect in its cost all of these additions that have been made to it—depreciation, factory rent, insurance, taxes, power, etc.

Next, let us look at the raw material inventory, to which none of these additions have yet been made in the factory. It is, by unanimous agreement, a current asset, and its utility, its reason for being so classed, is that it is going to form a part of a finished product that is going to be converted into cash. Stacked beside it is a pile of coal, which is going to be converted into steam power to operate the machines that will shape the raw materials. The cost of this power, as it is applied to the material, will be added to the cost of the product and, economically, the power will become a portion of the product. If, then, we are to value the raw materials because they are to become a part of product and be converted into cash, it is obvious that we should value our power source in just the same way and for the same reason. It, too, is on its way into product, and thence to cash.

Next, we discover a less tangible matter that has to be dealt with. We have on hand a supply of rent-free services of the factory building for one month, and we know that these services are going to be added to the product manufactured during that month and recovered in cash by sale. Are these services, the cost of which the accountant describes as "prepaid rent", in any essential respect different from the raw material and coal inventories? Obviously not. We find further that we are going to be able to manufacture without additional outlays for taxes and insurance during the next six months. Yet the services of the government, for which taxes are paid, and the protection against fire hazards, are an inevitable part of the product. Their cost, paid in advance, will become a part of our product cost. Are they in any essential particular different from raw material? Again, they obviously are not.

In current prepaid expenses, then, we have a store of the ingredients which are going into product and, through product, into cash. In function and in character they are precisely on a level with raw materials, and they are going to be recovered in cash in just the same way. If the period of their conversion into product is a current one, they are as much a current asset as the material inventory, and talk of converting them by cancelling insurance, etc., is just as irrelevant as talk of converting raw material by returning it to the supplying dealers.

Not all prepaid expense, of course, is current. The prepaid interest (unamortized discount) on a fifty year bond issue plainly isn't. Probably three year insurance premiums aren't. Furthermore, the title is misleading, because "expense" can't possibly be an asset. But the store of future services, the rights to receive essential cost elements without further outgo, which accountants describe as "Prepaid Expenses", is an asset, just as clearly as merchandising on the shelf, and it is turned into cash by a going concern in just the same way.

Finally, I often hear the objection that this principle may be conceded to apply to a manufacturing business, but what about trading enterprises? The answer, of course, is that the trader's economic function is the assembly, storage, display and delivery of commodities—if you will pardon this libelous abbreviation of modern merchandising—and that he sells these services inextricably combined with his physical commodities. When you buy an article in a department or chain store you buy also, without seeing it, a microscopic segment of the store's building, its show cases, its delivery vans, its services of personnel, of insurance, of taxes, of light and heat and all the rest of it. The store recovers its outlays for these services just as it recovers its outlays for merchandise. Any stock of such services which it has available for future use is as clearly an asset as its merchandise. And, if the recovery will be made "within one year" in the normal course of business, then it just as clearly satisfies our banker's definition of a current asset.

So much for theory. What ot the practical effect of excluding prepaid current expense from current assets? An illustration tells the story best. Here are two exactly identical companies, A. B. Company and C. D. Company. On December 31, A. B. Company paid its January rent, $400.00, a local tax assessment which would otherwise accumulate a penalty, $450.00, and renewed its insurance policies for one year at a premium of $650.00. In order to make these payments without too seriously depleting its cash, it borrowed $750.00 from the bank. C. D. Company did none of these things on December 31. Instead, it did them all, exactly as A. B. Company did (except for a 10 per cent tax penalty and for four uninsured days) on January 4. Otherwise, the two companies are remarkably similar, and their financial statements, as analyzed by credit men who did not regard prepaid expenses as a current asset, showed the following comparative information as to their working capital position:

A. B. COMPANY

Current Assets (excluding prepaid expenses) $10,000
Current Liabilities $5,750

C. D. COMPANY

Current Assets (it had not prepaid its expenses) $10,000
Current Liabilities (Its bank loan was made on January 4) $5,000

Note that A. B. Company has only $4250 of working capital as compared with C. D. Company's (*Cont. on p.* 35)

Business insurance

"The greater the credit extended, the more important is insurance to protect it . . . it is a safeguard which requires careful attention to make it effective."

by P. D. BETTERLEY, Assistant Treasurer, Graton & Knight Company, Worcester, Mass.

In approaching the subject of business insurance we acknowledge the continued efforts of insurance companies to furnish policies which will appropriately cover the needs of all users; at the same time we will advocate a closer cooperation between buyers and sellers which most certainly will result in better protection at lower cost. We have been prone to treat insurance as a necessary evil rather than as a safeguard which requires careful attentions to make it effective.

As a matter of fact insurance is one of the greatest enterprises and that portion which pertains to property, liability and casualty risks, is a tremendous factor in business management, while life and accident insurance occupy an increasingly prominent position. Insurance is a method of distributing infrequent but serious losses among many; to indemnity unfortunate persons having interest in things of material value. Scarcely a dollar of assets is free from insurable risk.

When an insurable loss does occur and indemnities are less than is required to restore the value, there is an irreparable loss, but most of these can be avoided by diligent application to the subject of insurance protection at all times. There should not be any mystery about insurance. It may be complicated but it is understandable.

The need of insurance is to guarantee as far as possible against uncertainties; to maintain financial security and credit. It is certainly the duty of management to guard against losses in business, to have on hand, as promptly as possible, working capital to replace destroyed property or source of earnings. The public is interested through investments in property and business and relies upon continued employment.

We are now at the mercy of an economy wave, and the reduction of insurance would apparently save money—but such acts may actually endanger the assets of the business. A temporary depression and reduction in surplus enhances the value of insurance. The greater the credit extended, the more important is insurance to protect it. When margins of profit are small the business cannot easily stand a loss of capital or interrupted sales. Nevertheless it is possible to spend too much for protection and the manager may often find that prevention efforts are more profitable than any protection methods.

Indirect losses not covered by insurance are a serious consequence of any loss. There may be a breaking off of relations with customers; loss of profit on goods for early delivery; valuable records cannot be replaced; and miscellaneous expenses may not be recoverable. No field offers greater opportunity for extravagance and frugality.

Responsibility of management does not cease with the purchase of types of insurance in common use for no insurance company can fully anticipate the needs of a risk as distinguished from another risk. Certain fundamentals will govern in each case but there is usually need of modification to fit particular conditions, and the buyer is in a position to analyze these requirements better than an outsider. His failure to do this and to exercise foresight, will result in permanent reduction of net worth.

It is quite evident that insurance security involves consideration of legal rights, contractual obligations, values, operations, future developments, liability of owner, operator or employer.

There is need of preserving proper records with values in proper relation to the insurance policy requirements, making frequent study of changing conditions, following decisions of the insurance companies and the courts.

Requirements would seem to warrant placing in charge of insurance one who has experience, judgment, initiative, vision and thoroughness as special qualifications. Additional security may be effected by contract with well informed insurance officials, agents, or advisors. Exchange of experience with other buyers is mutually helpful. It is gratifying to see a tendency on the part of various organizations to take up the study of insurance and the National Assn. of Credit Men is to be complimented for having established an Insurance Department for its membership should benefit by the interchange of information on this vital subject. We would recommend the adoption by all credit agencies of a more comprehensive insurance questionnaire as a safeguard against losses which so often occur

because the one who seeks credit does not carry adequate insurance.

The creditors' security should not be based solely upon property values but on insurance to cover, including such other contingencies and business interruption losses as may be economically insured.

The real value of an insurance policy is its net worth. We usually think of our insurance contract as a promise to pay for any loss insured against, but it does not cover indirect or all incidental losses. Back of the contract there should be ample resources of a reliable organization prepared to fulfill the intent of the contract, and there should be an interpretation of its various clauses, for mutual agreement is the foundation of a policy.

Having first made contact with able underwriters whose reputation has been established for fair treatment and who are licensed to do business in your state, continue the connection, for the company which has enjoyed your business for a long period of time is bound to give you the benefit of a doubt in time of misfortune. If insured with stock companies the same reason holds true with regard to the local agency connection. Work with them, not without them.

It is a well established rule that if an uncertainty exists, the one causing that condition must bear the penalty. Therefore, it is important that the buyer make sure that the insurance policy is what he thinks it is. There are standard forms which, by law in certain states, must form the basis of the insurance contract, but it may be superseded by many qualifications to fit the buyer's needs. It is the duty of the insured to inform himself of the terms, considered in the light of every possible loss, ascertaining if every agreement made with the insurance companies will stand the test. Insurance needs should be carefully analyzed before the casualty occurs. The rights of insurance agents to waive requirements or change policy conditions are very limited, and the insuring companies cannot be expected to make coverage retroactive.

All insurance is mutual in principle, loss being met through contribution by members of the insured group. The insurance contract is personal in character and its value depends upon the observance of good faith throughout its period. It is not a wager, guaranteeing to pay a specified sum in case of misfortune, but is an agreement of indemnity to compensate for actual loss sustained, within the scope of the policy. It is not usual for conditions to remain the same, therefore, the insured should co-operate wherever possible to reduce the hazards and likewise the insurance company should adjust the coverage in accordance with underwriting facilities. Voluntary adjustments bring the parties to a closer understanding and the settlement of loss claims will be found more satisfactory to both. These are essential factors in determining the cost of insurance.

There are different types of insuring organizations and the buyer should make his choice on the basis of well weighted facts. The security of his insurance protection is based upon both the financial resources and the character of the management of the insurers. Protection should be bought on the same basis as any other type of service, according to the ability of the servicing organization to fulfill its obligations. Insurance which is purchased through prejudiced influence or friendship without consideration of contract qualifications may be unnecessarily expensive and prove disappointing at time of loss.

Because of past favorable experience self insurance may be considered perfectly safe, but to be adequate, it must have back of it an unencumbered reserve or guarantee, sufficient to provide for direct and prompt compensation for all losses. Without such provision no insurance can be said to exist. Self insurance lacks the security which goes with outside insurance and the success of this method depends upon the direct interest of the management. It may be possible to handle multiple units of risk in this way under favorable conditions. It directly focuses the attention on losses and often brings about preventive measures which would be otherwise ignored, but such a plan should not be adopted without most careful study. If adopted, it is often advisable to purchase excess loss insurance to cover the more serious catastrophe hazards.

Various forms of contracts have been devised to take care of specific needs and the first one offered may not fit at all—find the one which will best fit the needs of the individual's case. Blanket forms and multiple location floaters prevent overinsurance and loss occasioned by frequent changes in values or location. It is particularly important that the buyer know the full effect of a co-insurance clause which is so commonly used yet often misunderstood.

Failure to recognize insurable interests, even with the best insurance department set-up, makes it quite necessary for the security of protection to have the insurance apply automatically.

Since the contract is one of indemnity and not a promise to (*Cont. on page* 42)

Latin-American

by W. S. SWINGLE,
Director,
Foreign Credit Interchange
Bureau, N. A. C. M.

This month in connection with the survey of credit and collection conditions in Latin America a special survey was made to obtain an expression of opinion on the policies firms are adopting on handling shipments to these markets.

In the past few months, in discussing exchange with various exporters we have received many different opinions and comments as to how they are handling current shipments, whether business was entirely blocked by exchange regulations, or they were continuing to ship goods into various markets, at the same time accepting payment in foreign currencies until such time as exchange regulations would be modified and payments could come out in the regular course.

In order to obtain an expression of opinion on these matters, three questions were asked in the survey under each country. First, whether current shipments were being paid for in dollars; second, whether local currency was being accepted in payment for current shipments; and third, whether shipments were being discontinued due to the exchange situation.

It is understood that there would be various modifications for different customers in any one country, or covering specialized commodities, but the general policy adopted in any country was to govern the replies made. Where the indication was that current shipments were being paid for in dollars, it did not necessarily mean that the payments are coming out promptly, but rather that the shipments are continuing to be made on a dollar basis, and that payments are coming in in dollars on current transactions, even though somewhat delayed on account of the individual standing of the buyer or current regulations requiring special exchange permits, etc.

Where local currency deposits are being accepted on current shipments, this might even be due to regulations which would permit the legal satisfaction by a local currency deposit, or by the policy of exporters in permitting the buyer to pay for the goods under present conditions with local currency, but in any event would indicate a policy of continuing to ship into such a market despite the fact that local currency would be accepted in payment.

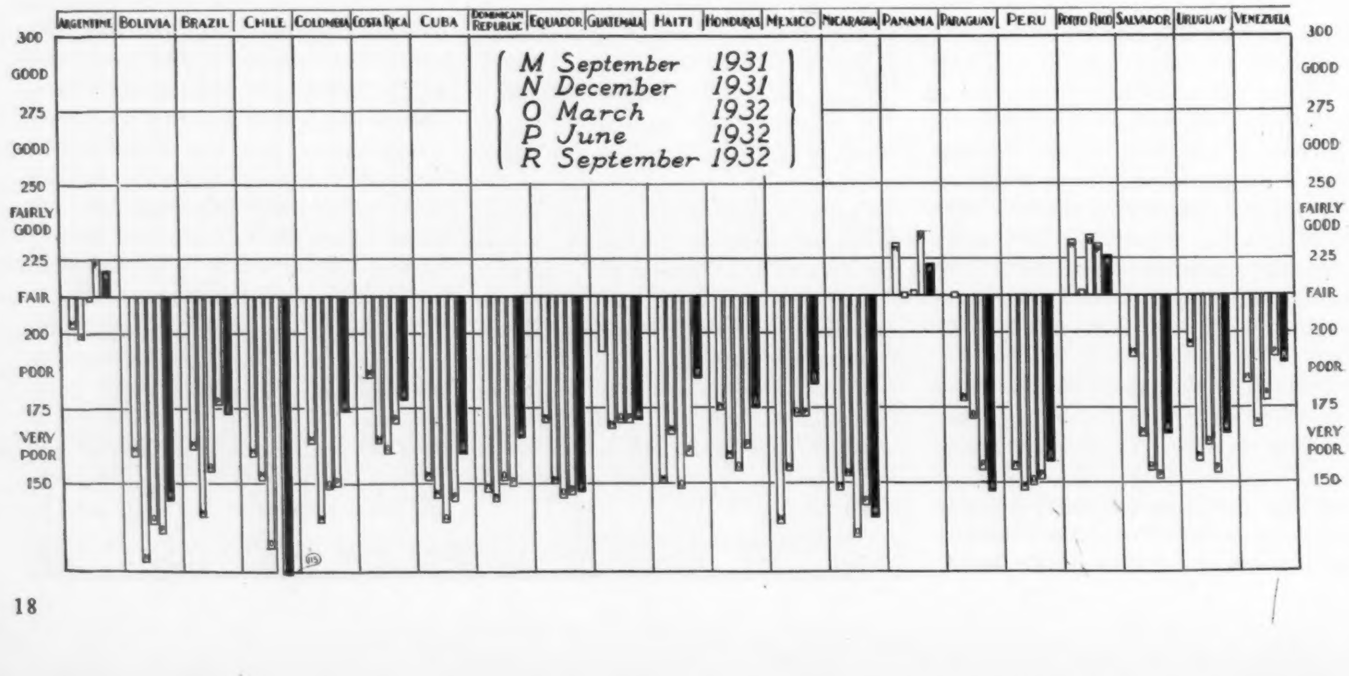
In such countries as Argentina, Costa Rica, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Salvador and Venezuela, by far the larger percentage of exporters are continuing to have current shipments made in dollars and paid for on this basis. In Bolivia, Brazil, Colombia, Ecuador, Paraguay and Uruguay, the number of those who are accepting local currency in payment or staying out of the market on account of exchange, is considerably higher, and in Chile, by far the greatest number are making no current shipments on account of the exchange situation.

In order to summarize the survey as concisely as possible, and give the benefit of the consolidated opinions, each country will be covered in order. The percentages referred to in the following paragraphs are based on the replies received to the survey.

ARGENTINA: Exchange restrictions have been in force since last Fall, and special application has to be made to the Control Commission for maturing obligations. Payments in local currency at the rate at the day of maturity may be made to the legal discharge of the drawee.

These restrictions have apparently not seriously blocked out shipments to this market. 60% of the shippers are continuing to have current shipments paid in dollars under these regulations. About

Credit conditions in twenty-one Latin-American countries scaled on the basis of the credit condition index figures which express mathematically the combined opinions of individual reports on each country.



exchange

27% are continuing to ship and if necessary accepting local currency deposits on current shipments. About 13% indicate they are making no shipments to this market.

BOLIVIA: Exchange restrictions in force since last Fall, and a Control Commission in operation. There is a scarcity of exchange and delay in securing payment for maturing drafts, with preference given to imports considered as essentials.

About 64% of the shippers are continuing to ship on a dollar basis, with payments as they are received, in dollars. There is no indication that local currency is being taken for current transactions, and 36% of those reporting indicate that they are not shipping into this market on account of exchange.

BRAZIL: Exchange operations under the control of the Bank of Brazil since restrictions were put in force early in 1930. A 90 day moratorium has been decreed on obligations maturing between July 11 and August 31, and drawees must deposit milreis at official rate of 13$310 per dollar. This decree will probably be extended.

Exporters are meeting the situation in Brazil with a policy of about 40% continuing to have current shipments handled on a dollar basis. About an equal percentage are accepting local currency deposits for shipments made at this time, and 20% are remaining out of the market on account of the exchange situation.

CHILE: This market presents the most difficult exchange situation of any of the Latin American countries, with unusually rigid restrictions both on exchange and on exports, making it very difficult and almost impossible to secure dollar payments.

About 10% of those reporting indicate that such business as is being done can only be done on a dollar basis through special arrangements for payment. About 10% advise that they are sending current shipments into the market and accepting local currency deposits, and 80% are not making current shipments to this country on account of exchange.

COLOMBIA: Exchange operations are under the Control Committee covering both special arrangements for payment on old accounts prior to September, 1931, and special permits for payment of current shipments.

With this situation in view, 50% of shippers are continuing to make shipments and receive payments on a dollar basis. 35% are accepting local currency deposits on current shipments, and 15% indicate that current shipments are being withheld on account of the exchange situation.

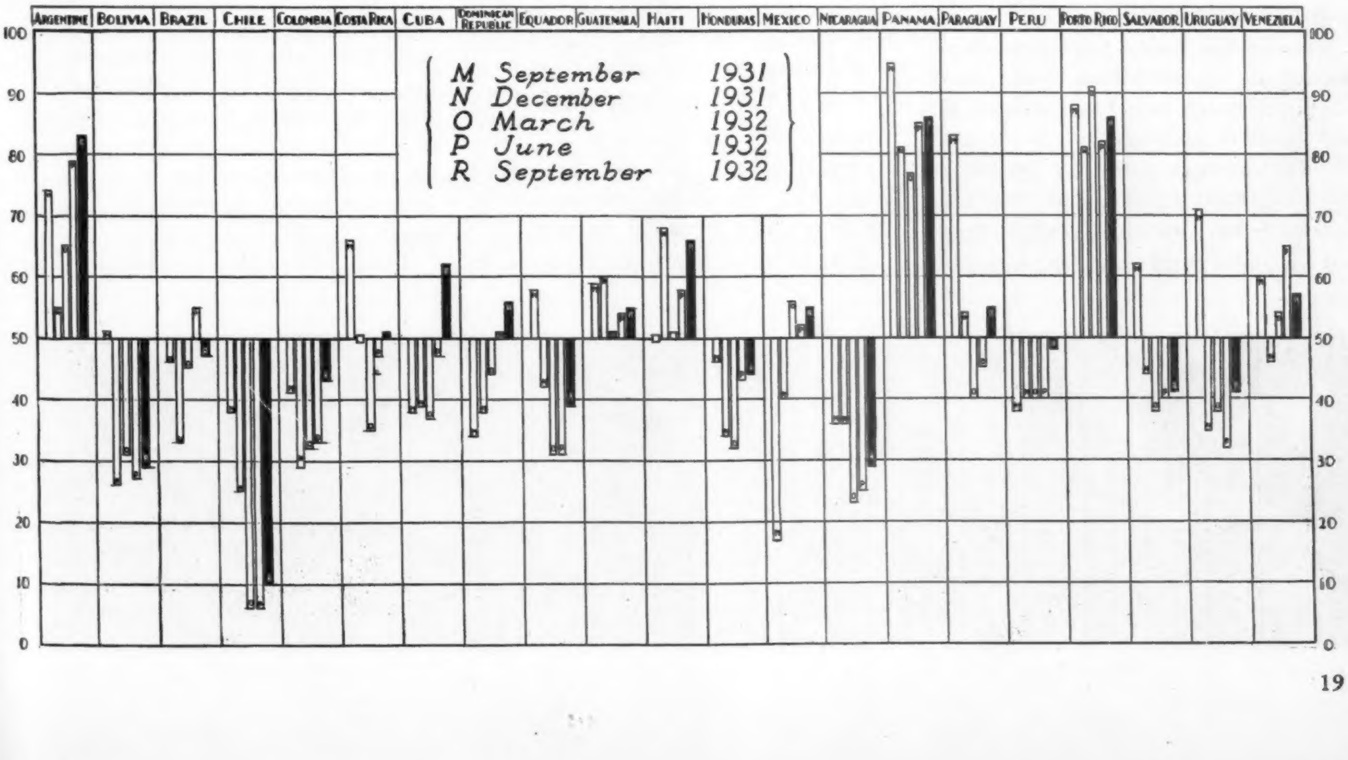
COSTA RICA: With an Exchange Control established in January of this year there is a difficult exchange situation existing and a scarcity of dollars. Drawees may make deposits of local currency at a fixed rate at the rate of the day of maturity on drafts if they so desire, if they cannot obtain dollars at this time.

On current shipments to this market, 60% of the shippers are continuing to make these on a dollar basis even with delays in payments, and the balance is evenly divided between making shipments with payment in local currency, or not shipping on account of exchange conditions.

ECUADOR: This country has been off the gold standard since early this year, and exchange restrictions have concentrated transactions through the Central Bank. There is a shortage of exchange, and dollar remittances are few. Local currency is taken on deposit at maturity, with a guarantee from the drawee.

40% of the current shipments reported are made on a dollar basis, 30% are taking local currency deposits, and 30% are remaining out of the market on account of the difficult exchange situation.

GUATEMALA: No exchange restrictions in force, and (Cont. on page 34)



Collection conditions in twenty-one Latin-American countries at five different periods. The scale numbers are based on the percentage of reports of prompt collections for each country during each survey.

R. F. VAN VRANKEN,
Secretary and General Adjuster, Home Insurance Co., New York, emphasizes that complete protection is the keystone for the credit structure in this article . . .

Covering coverage

There is perhaps no one who is active in the business world today, who would take exception to the statement that the credit standing of any country, city, village or individual, is the back-bone of its ability to carry on such activities as it may be engaged in.

The credit standing of the United States is perhaps its principal asset, and we all surely have a keen realization that the vast net-work of credit revolving around the major portion of the business of the country has been stretched to an alarming degree; in fact, almost to the breaking point.

It may be fairly said that the great majority of our population never has sensed the true meaning of the possibilities of the credit system in vogue throughout our business life.

When one of the manufacturing princes of the country establishes a great factory in one of our large cities, or in the suburbs of a city, he does the citizens of that community a valuable service, particularly with regard to the feature of employment, and through that medium arises the feature of establishing credit for not only the owner, but all those who may be engaged to serve him.

One of the major fundamentals affecting the establishment of the credit of this factory owner, as well as the vast number of employees, is the ability to furnish to either the bankers or others granting credit, the necessary insurance—fire, tornado, explosion—in one of the prominent fire insurance companies, licensed by the various individual states to transact business of that character.

It is therefore evident that a factory owner, upon completion of his mill, becomes desirous of insuring his property against destruction by fire, tornado, etc., in order that he may convince his banker, when seeking necessary credit to carry on his business, that in the event of the destruction of that property, he will be in a position to liquidate any outstanding indebtedness he may have incurred.

To a student of finance and credit, it therefore becomes self evident that the entire credit structure of the nation, city or village hinges upon the soundness and stability of the fire insurance companies of that nation.

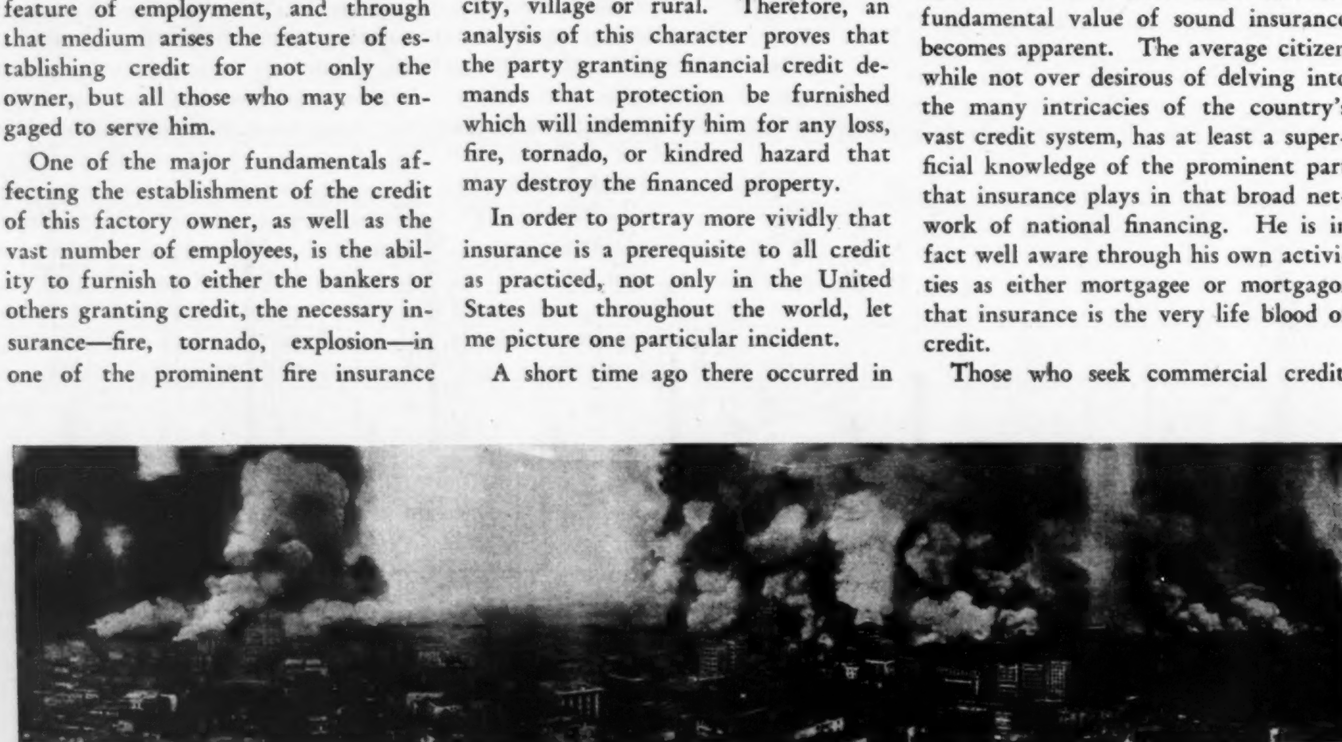
Let us for a moment visualize the vast ramifications contingent upon that one factor. Practically every member of the business world, be it manufacturing, mercantile, or otherwise, must at some time or other deal with the financial magnates of his community, either city, village or rural. Therefore, an analysis of this character proves that the party granting financial credit demands that protection be furnished which will indemnify him for any loss, fire, tornado, or kindred hazard that may destroy the financed property.

In order to portray more vividly that insurance is a prerequisite to all credit as practiced, not only in the United States but throughout the world, let me picture one particular incident.

A short time ago there occurred in a certain rural community just beyond the limits of a flourishing city, in the mid-west, a twenty minute hail storm. When the fury of the storm had gone, all the people of this thriving and prosperous community discovered the fact that practically every building within a certain radius had been damaged. Some, of course, to a far greater extent than others. A conservative estimate of the total property damaged probably would run around \$25,000 to \$30,000 in all. Many of the homes as well as the growing crops were insured by their owners against damage by hail, but others had not used the same amount of foresight and consequently weakened their credit or financial stability.

It might of course be argued that many property owners are fortunate enough not to need financial help in building their homes or carrying on their specific business, whatever it may be and while that of course is the desire of all, no one can tell when during their ownership of said property, it may become necessary to seek outside financial aid. It is at such times that the fundamental value of sound insurance becomes apparent. The average citizen while not over desirous of delving into the many intricacies of the country's vast credit system, has at least a superficial knowledge of the prominent part that insurance plays in that broad network of national financing. He is in fact well aware through his own activities as either mortgagee or mortgagor that insurance is the very life blood of credit.

Those who seek commercial credit,



especially in these days of stress, and most people negotiate some sort of a mortgage on their real property, soon realize that the banking and financial interests of the country demand fundamental evidence of the stability of their loans or in other words the ability of the mortgagor to liquidate their loans in the event of the property being destroyed in some manner beyond their control.

It, therefore, behooves every borrower to immediately secure proper and adequate insurance as a mark of his stability and ability to reimburse his own credit sponsors in the event of the property being destroyed by one of the many hazards.

The great fire insurance companies of this country, and in fact of the world, have a true realization of the fundamental value of the contracts they sell the public, and there have been many notable instances in the past history of the world, which have demonstrated to our people that fact. Every far seeing banker, worthy of that title, is well aware of the truth of that statement.

Let us for the purpose of illustration turn back the pages of history to what is probably the outstanding example prompting this thought. The occasion in mind and which we desire to stress is the San Francisco conflagration. To those of us who were in any way vividly connected with that terrible catastrophe, and in fact to those who were not in any way involved, it is hardly necessary to point out that the great city of San Francisco could never have arisen from its ashes, had it not been for the many millions of dollars that were paid to claimants by the insurance companies.

The city of San Francisco had truly established itself as one of the great commercial and manufacturing centers of the country in 1906 and in fact had been developing before that fateful year. Its wonderful harbor on the Pacific gave it not only the name of the Golden Gate, but an outstanding opportunity to develop both commercially and as a city of homes.

At the very peak of this wonderful development the fair city of San Francisco awoke one morning to find itself in the midst of a catastrophe that left hardly a building within the area of the city unscathed. To those who have never experienced the horrors of an earthquake it is almost impossible to picture the terror that strikes the hearts of the citizens living in the community visited by such a calamity,—one can only say that the scene is little short of a mad panic. When one's dwelling house or factory or mercantile building topples in on one's head so to speak, it does not take a very vivid imagination to picture the feelings of the owners of the property so affected.

While the chaos which reigned in San Francisco during May, 1906, due to the earthquake and the ensuing fire was of an outstanding and far reaching character seldom seen in the normal life of man such situations do arise with more or less frequency, although fortunately not nearly so severe.

At the very moment San Francisco lay prostrate due entirely to something beyond the control of any of the city fathers, and with the one thought uppermost in the minds of all of its citizens—How can our former beautiful city be brought back to its original grandeur or be rebuilt better than heretofore?—the answer came from the country's many strong and financially sound insurance companies. The city's credit was brought back to normal through the millions of dollars paid to its citizens under their insurance policies.

One phase of that catastrophe, and which applies to all similar occurrences, although perhaps not well known to the general public is the feature of inadequate insurance to value. The bankers and financial men of the nation were appalled at the seeming lack of proper realization of the necessity for protecting the financial structure of the country, which can be so readily swept away in the so-called twinkling of an eye. All business, of course, financial and otherwise, learns through experience.

It might be entirely fair to say that we of the insurance fraternity have endeavored in many ways to educate our brothers who handle the vast financial and credit interests of the country to the extent of having a keen realization that fire insurance and its allied coverages are the fundamental key-stone to the huge credit structure of the world.

In fact it is freely admitted by all the leaders in the financial world that insurance occupies a very important position in the economic activities of not only the United States but the world at large and in fact is the very fundamental of all credit.

Two views of San Francisco, before and after the destructive fire of 1906; both views being taken from the same point. Where there was smoke, there was fire . . . and ruins the following day.

Budgets for

Plan the budget and budget the plan

by Dr. RAYMOND B. PINCHBECK, University of Richmond

Last month Dr. Pinchbeck presented the development of the budget idea, the nature of budgeting, its benefits and its essentials. He continues with a thorough analysis of the budget in this issue.

The budget committee and the director of the budget should have before them (1) data on the general business situation in the United States including price levels, wage levels, trade territories, agricultural, industrial, commercial and financial data which may affect the company's business operations. (2) They should study the factors of competition, purchasing power and income, style factors, and similar elements confronted in each of its trade territories. (3) The need for new products, changes in old products, new uses for old products, possible new processes and new methods for the company should be carefully and continuously studied. (4) The plant should be carefully studied as to unused plant capacity or the need for expansion or renovation of equipment. (5) Careful analysis of the working capital and fixed capital structure, needs, and methods should be made periodically. (6) The marketing methods, channels, advertising policies, dealer and agent relations should be carefully scrutinized with a view to improvement. From the above information a "balancing of operations" should be woven into the fabric of the planned budget. Because of the interrelation of all business firms in the general economic system no budgetary system can possibly succeed where these broad business factors are ignored.

The greatest single obstacle to the use of budgets and planning in business is the fact that the forcasting of sales, income and consumer demands is so extremely difficult. It is for this reason that many individual firms and certain associations are urging their members to budget expenses and costs first, and after careful studies turn to the budgeting of sales and income. Expenses are capable of rather definite planning.

Market and sales analysis are new terms in the vocabulary of business men. It embodies the use of the same scientific methods in the study of markets, sales channels, the improvement of commodities in light of consumer demand, advertising, the selection, education and direction of salesmen, cost accounting for sales, sales organization, promotion and direction, the establishment of sales territories, quotas and standard costs, that have long been applied to manufacturing and production. This scientific approach to the sales problems of the firm is no longer a theory but is actually being practiced by the most successful business organizations.

Market analysis should embody (1) careful planning of the scientifically established market boundaries and territories for the firm's goods; (2) the potential consumptive capacity of such territories; (3) the purchasing power, income, buying habits, competition and related factors in these territories; (4) the proper sales channels for the commodity, that is, wholesalers, jobbers, retailers, house-to-house sales, salesmen, exclusive dealers, and direct mail sales; (5) scientific cost accounts which show not only the manufacturing costs but selling costs, profits and losses by territories, salesmen, dealers, towns, customers, credit terms, and advertising media; (6) the establishment of sales quotas for salesmen and dealers; (7) the establishment of scientific advertising methods and policies, and the advertising budget; (8) new methods of marketing and economizing sales costs; (9) discovery of the demand for changes in the old commodities and the desire for new commodities; and (10) the finding of new markets and new uses for the products of the company.

It should be noted here that certain companies maintain market analysis and sales research organizations which combine sales research with studies of general business conditions which affect the company. The same organization or department also makes studies in the fields in which the firm must purchase its own goods or materials. Private advertising agencies, independent commercial research organizations, the United States Department of Commerce, the Federal Census Bureau, state governmental departments and bureaus, college and university departments of commerce are engaged in making important market analyses. A recent Department of Commerce Bulletin, entitled "Market Research Organizations," lists over 800 bodies and organizations, including trade associations, which are now engaged in market research.

(a) *The Sales and Income Budget.*

Because sales and income budgeting are the most difficult of the budget elements they should be most conservatively estimated only after painstaking market analysis and sales research. The details of the sales budget should be broken down to show:

1. Volume and value of commodities by groups and classes.
2. Territorial division of sales by commodities.
3. Sales by salesmen, selling units, departments and branches.
4. Sales by classes of customer or trade.
5. Sales by terms of credit in order to afford data for financial planning.
6. All other sources of income to the firm other than sales.

prosperity

7. The amount of borrowed funds necessary each month.

These statements on estimated sales should show the quantitative volume of sales as well as dollar sales.

(b) *The Selling Expense Budget.*

This budget should break the expenses down to show the following details.

1. Sales office expenses.
2. Expenses of securing orders, sales salaries, etc.
3. Storage costs of all classes.
4. Packing and shipping costs.
5. Shipping and delivery expenses.
6. The advertising budget based on market analysis data.
7. Costs of credits and collections, bad debt losses.

As far as possible these selling expenses should be allocated to the classes of goods sold, salesmen, territories, customers, towns, dealers and classes of trade, in a scientific manner.

(c) *The Materials Budget.*

The materials budget should be based on carefully kept and complete records of the raw materials inventory, inventory of goods in process, and records of finished goods. Naturally the materials budget will depend, as will the supplies budget, upon the production budget hereafter described. The production program, its scheduling and dispatching, will depend upon the sales and other income budget. This budget must also take into account the relation of production for order to production for stock. The details of the materials budget should show the following groups of items.

1. Estimates of the volume and cost of materials required for the production program, by classes of materials.
2. Estimates of purchases, by volume and cost, which with the present inventories will be ample for production and inventory needs.
3. Schedules showing the estimated amounts of materials, and their costs, to be used during each month of the budget period.
4. Estimated volume and value of finished goods, processed materials, raw materials and supplies which will be on hand at the close of the budget period.

(d) *The Production Budget.*

Usually the production budget is prepared in advance of the materials budget. As already indicated, the making of the production and material budgets will depend upon the sales budget. The latter should not only be broken down under the seven suggested headings indicated, but also according to the periods of time in which the sales are to be made. The following are among the essential details of the production budget.

1. Determination of the amount to be produced during the budget period.
2. Schedules of production arranged to assure deliveries of finished goods in amounts to satisfy the sales demand.
3. Establishment of the proper proportion of goods manufactured for stock and for specific orders.

(e) *The Labor Budget.*

Here we reach a vital part of the whole budgetary procedure. In order to secure a maximum of cooperation on the part of employees it is necessary to stabilize employment so as to assure the worker as large a part of the year in terms of full time employment as is possible. At the same time economy in labor costs are as desirable as in any other item in manufacturing expenses since labor costs represent the largest single item. The labor budget should show, among other things, the following details.

1. Estimated payrolls by departments, by jobs or processes, and in relation to the unit cost of production, cost of sales, etc.
2. Schedules of labor needed during each month of the year with a view to the stabilization of employment.
3. Schedules showing such other labor costs as recreational facilities, personnel service, housing and food facilities, old age retirement funds, disability and sickness allowances, unemployment reserve accumulations, and other like labor costs.
4. Schedules showing the costs of compensation insurance, employers' liability insurance, group and other insurances carried on workers.
5. Supervisory and other directional labor costs. This would include educational and training coss for employees.

(f) *The Manufacturing Expense Budget.*

This budget should show the costs of the following items as well as other essential cost details.

1. Cost of indirect labor, supervisory labor, and factory office.
2. Cost of supplies and miscellaneous indirect materials.
3. Cost of inspection, maintenance of standards, and production planning, scheduling, and dispatching.
4. Cost of power, fuel, light, water, ventilation, etc.
5. Repairs, maintenance and upkeep expenses.
6. Depreciation, obsolescence, and depletion.
7. Taxes applicable to manufacturing functions.
8. Insurance applicable to manufacturing functions.
9. Burden or overhead departmentalized and distributed on a scientific basis.

(g) *Plant and Equipment Budget.*

In the preparation of the plant and equipment budget we find the problem of maintenance of present equipment and plant, and forcasting and planning for future capital needs. Public utilities and similar industries such as telephone companies find it wise to plan capital equipment expenditures over a period of years, some times as far as twenty years ahead. This longer period of time is planned in broad outlines while five years of this period is planned in careful detail. Of course, the current operating year should be planned in elaborate detail and included in the current budget of operations. On the basis of the capital budget long term financing by use of bonds, mortgages, stock, etc., is scientifically planned. Naturally this planning of long time financing of equipment must correlate with the financing of current working capital, and both must be carefully fitted into the current operating budget in terms of necessary sinking fund payments, liquidation of current debt, amortization or retirement of bonds, the payment of interest charges and preferred stock dividends, the payment of common stock dividends, and the building up of adequate reserves and surplus.

The plant and equipment budget should show the following details as well as other related data.

1. Detailed statement of equipment value at the beginning of the budget period.
2. Estimated depreciations, obsolescence, and depletion at the beginning of the budget period.
3. Items of capital equipment needed during the budget period, their cost, and a statement of what months of the year they will be installed or built.
4. Cost of equipment disposed of during the budge period, and its salvage value as realized by sales.
5. Accumulated depreciation and other reserves on equipment disposed of during the current budget period.
6. Value of equipment remaining on the books at the close of the estimated budget period.
7. Proposed means of financing new and replaced equipment and plant additions.
8. Detailed schedules of the cost of mainenance and repairs.

It is needless to (*Continued on page 35*)

Nation-wide collection and sales conditions

What they are at present

The outlook for the near future

SCREDIT AND FINANCIAL MANAGEMENT offers its regular monthly survey of collections and sales conditions. It is based upon reports from large cities throughout the country that are trade centers for their surrounding areas. The reports are the results of the daily experience of the leading wholesaling and manufacturing concerns operating from these trading centers. The two questions "Are people buying?" and "Are they paying?" are perhaps the most direct and immediate reflection of daily business conditions in the country.

These reports have been tabulated so that you may see at a glance how conditions are reported in various cities in each state, also what cities report a condition of "Good, Fair or Slow." At the end of this summary you will find valuable explanatory comments that have been sent in to CREDIT AND FINANCIAL MANAGEMENT. These additional comments may be pertinent to your interpretation of collection conditions and sales conditions in the cities listed.

State	City	Collections	Sales
Ark.	Ft. Smith	Fair	Fair
	Little Rock	Fair	Fair
Cal.	Los Angeles	Fair	Fair
	Oakland	Fair	Fair
	San Francisco	Fair	Slow
Colo.	Denver	Slow	Slow
	Pueblo	Fair	Fair
Conn.	Bridgeport	Slow	Fair
	Hartford	Slow	Slow
	Waterbury	Slow	Slow
Fla.	Jacksonville	Slow	Slow
	Tampa	Fair	Fair
Ga.	Atlanta	Fair	Fair
	Macon	Fair	Fair
Idaho	Boise	Fair	Fair
Ill.	Peoria	Slow	Fair
	Springfield	Slow	Fair
Ind.	Evansville	Fair	Fair
	Ft. Wayne	Fair	Fair
	South Bend	Slow	Fair
	Terre Haute	Fair	Fair
Iowa	Burlington	Slow	Slow
	Cedar Rapids	Slow	Fair
	Davenport	Slow	Slow
	Des Moines	Slow	Slow
	Ottumwa	Fair	Fair
	Sioux City	Slow	Slow
	Waterloo	Fair	Slow
Kan.	Wichita	Slow	Slow
Ky.	Lexington	Slow	Slow
	Louisville	Fair	Fair
La.	New Orleans	Fair	Fair
	Shreveport	Slow	Fair
Md.	Baltimore	Fair	Fair
Mass.	Boston	Slow	Slow
	Springfield	Good	Fair
	Worcester	Fair	Fair
Mich.	Detroit	Slow	Slow
	Flint	Slow	Slow
	Grand Rapids	Slow	Slow
	Jackson	Slow	Slow
	Lansing	Slow	Slow
	Saginaw	Slow	Slow
Minn.	Duluth	Fair	Fair
	Minneapolis	Fair	Fair
	St. Paul	Slow	Fair
Mo.	Kansas City	Slow	Slow
	St. Louis	Slow	Slow
Mont.	Billings	Fair	Slow
	Great Falls	Slow	Fair
	Helena	Fair	Good
Neb.	Omaha	Slow	Slow
N. J.	Newark	Slow	Fair
N. Y.	Albany	Good	Good
	Binghamton	Fair	Fair
	Buffalo	Fair	Fair
	Elmira	Fair	Fair
	New York	Good	Fair
	Rochester	Fair	Fair
	Syracuse	Fair	Fair
	Utica	Fair	Fair
N. C.	Charlotte	Good	Good
Ohio	Cincinnati	Fair	Fair
	Dayton	Slow	Slow
	Toledo	Slow	Slow
	Youngstown	Slow	Slow
Okla.	Oklahoma City	Fair	Fair
	Tulsa	Slow	Slow
Oregon	Portland	Fair	Fair
Pa.	Allentown	Slow	Slow
	Altoona	Slow	Slow
	Johnstown	Slow	Slow
	New Castle	Slow	Slow
	Wilkes-Barre	Slow	Fair
R. I.	Providence	Fair	Slow
So. Dak.	Sioux Falls	Slow	Slow
Tenn.	Chattanooga	Slow	Slow
	Memphis	Slow	Fair
	Nashville	Slow	Slow
Texas	Austin	Good	Good
	Dallas	Fair	Good
	El Paso	Slow	Slow
	Ft. Worth	Fair	Slow
	Waco	Fair	Fair
	Wichita Falls	Fair	Fair

State	City	Collections	Sales	State	City	Collections	Sales
Utah	Salt Lake City	Fair	Fair	W. Va.	Bluefield	Slow	Slow
Va.	Bristol	Fair	Fair		Charleston	Slow	Slow
	Lynchburg	Slow	Slow		Clarksburg	Fair	Fair
	Richmond	Fair	Fair		Wheeling	Slow	Fair
	Roanoke	Fair	Fair	Wis.	Fond du Lac	Slow	Slow
Wash.	Bellingham	Slow	Slow		Green Bay	Slow	Slow
	Seattle	Slow	Fair		Milwaukee	Slow	Slow
	Spokane	Slow	Slow		Oshkosh	Slow	Slow
	Tacoma	Fair	Fair	Terr. of Hawaii	Honolulu	Slow	Slow

Comments on collections and sales conditions

ARKANSAS: Ft. Smith reports collections fair and a marked increase in sales. Collections and sales in Little Rock are fair and an upward trend in business is seen in almost all lines.

CALIFORNIA: There has been a definite improvement in collections and sales in Los Angeles. Oakland finds collections and sales fair and expects pick-up in both during the coming months. Collections in San Francisco have shown considerable improvement and there is a decided tendency toward larger volume in sales. The general outlook is good.

COLORADO: Sales and collections in Denver are still slow, although a small improvement has been noted.

CONNECTICUT: Bridgeport reports collections slow and sales fair. Collections and sales in Waterbury are slow. Employment conditions have improved somewhat, and the outlook is rather hopeful.

FLORIDA: Collections and sales in Jacksonville are slow. Tampa reports collections holding up fairly good and sales have improved somewhat.

GEORGIA: There has been a decided improvement in business in Atlanta during the past month. Collections and sales are fair.

INDIANA: Indications in Evansville are that both sales and collections are improving. Conditions in Ft. Wayne have improved. Collections and sales are fair.

KENTUCKY: Louisville reports a better sentiment prevailing and a slight improvement in buying. Sales and collections are both fair.

LOUISIANA: New Orleans finds collections fair, with one section reporting collections very good. Sales are fair. Shreveport reports the following: "While no improvement is yet noted in wholesale collections, some houses report sales for the past month as the best for the corresponding period in three years. The prices of many commodities are increasing and the increase in the price of cotton is having a very marked effect. The cotton crop in this section is very short, but a good feed crop has been made. Improvement in all lines is anticipated within the next few months. A better feeling seems to exist throughout the section, and within the next few weeks an improvement in collections is anticipated".

MASSACHUSETTS: There has been a marked improvement in conditions in Springfield. Collections are very good and sales are fair. Collections and sales in Worcester are fair and the feeling of confidence is very much stronger than during the past few months.

MICHIGAN: Collections and sales in Detroit are slow, although there is a definitely improved public mental tone. Collections in Flint are slow and sales are at their lowest ebb during the past three years. Grand Rapids reports a pick-up in some lines, and a few factories which were almost completely shut down are open and doing considerable business.

MINNESOTA: Both sales and collections have improved in Duluth. Minneapolis reports the following: "There is an indication of improvement in collections and evidence of the usual seasonal demand for merchandise and a slight up-trend in sales. Further recovery in prices of live stock and grain should improve collections in St. Paul. A feeling of optimism is apparent among buyers, who are replenishing their stocks.

NEBRASKA: As yet, no definite improvement has been registered either in collections or sales in

(Continued on page 33)

Changes since last month's survey

State	City	Collections	Sales
Arkansas	Ft. Smith		Slow to Fair
	Little Rock		Slow to Fair
California	San Francisco		Fair to Slow
Connecticut	Bridgeport	Fair to Slow	
Florida	Tampa	Slow to Fair	Slow to Fair
Idaho	Boise	Good to Fair	Good to Fair
Illinois	Peoria		Slow to Fair
	Springfield	Fair to Slow	
Indiana	Evansville		Slow to Fair
Iowa	Ottumwa	Slow to Fair	
	Waterloo		Good to Slow
Kentucky	Louisville		Slow to Fair
Louisiana	New Orleans		Slow to Fair
Massachusetts	Springfield	Fair to Good	
Michigan	Detroit	Fair to Slow	
Minnesota	St. Paul	Fair to Slow	
Montana	Billings	Slow to Fair	
	Helena		Fair to Good
Nebraska	Omaha	Fair to Slow	
New Jersey	Newark		Slow to Fair
New York	Albany	Fair to Good	Fair to Good
North Carolina	Charlotte	Slow to Good	Slow to Good
Oklahoma	Oklahoma City	Slow to Fair	Slow to Fair
South Dakota	Sioux Falls	Fair to Slow	
Texas	Austin	Slow to Good	Slow to Good
	Dallas		Fair to Good
	Waco	Slow to Fair	Slow to Fair
Utah	Salt Lake City	Slow to Fair	
Virginia	Roanoke	Slow to Fair	
Washington	Seattle	Fair to Slow	Slow to Fair
West Virginia	Clarksburg	Slow to Fair	

"This month's collection letter"

Dear Sir:—

MONEY—MONEY—MONEY—We Need MONEY!!!

And the most logical place we know where to look for it is among such of our good friends who happen to owe us a past due bill that should be paid.

$125.00 will square up your January invoices with us—help us out a lot, and be appreciated.

Surely, we can count on you NOW?

THE SOUTHWESTERN BROOM MFG. CO.
Walter W. Meier, Treasurer,
Evansville, Indiana.

We present our regular "this month's collection letter". It is unique and effective and an example of good collection letter thinking.

What the country needs is more good collection letters. Their importance in helping pull business out of a depression and then keeping it out is greatly underestimated. There is no short cut to profits as certain as collection letters that do their job.

Send us your best and favorite collection letter for our "collection of collection letters" which we are gathering for readers of CREDIT and FINANCIAL MANAGEMENT.

"Money, money, give us money, is the common cry." Do you recall these words of an old-time song?

Unfortunately in the case of most collection letters the only cry is "money, money, give us money". No attempt, in too many cases, is made to develop this theme in a fashion more subtle, less obvious. Collection letters should, as a rule, play up the "you" angle—make it appear advantageous to the payer-to-be that payment is twice blessed, like the quality of mercy in Shakespeare's lines which is not strained but "is twice blessed', blessing "him that gives and him that takes."

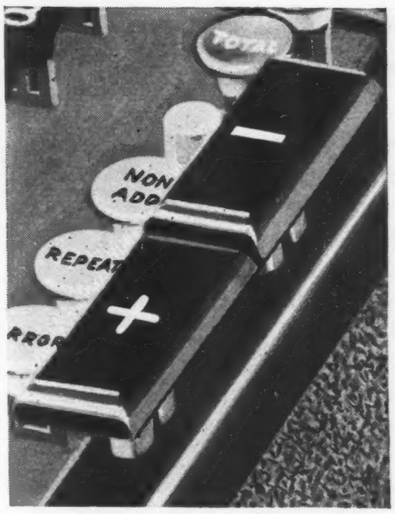
Too many collection letters have a hungry look, a thirsty vocabulary and a seedy logic.

This contribution by Mr. Walter M. Meier of The Southwestern Broom Manufacturing Co., of Evansville, Indiana, is used as a sample of good effort because of one strong reason—it is so frank, sincere, and honest as to its mission; its face is so clean as it asks for cash with a twinkle in its eye; its message is terse and yet not trite; that it should make the "hardest-boiled" debtor soften a bit and send his remittance.

A complete series of individual numbers of the collection letters which have appeared in CREDIT AND FINANCIAL MANAGEMENT is available upon application to Miss Mary V. Larkin, Manager, Collection Letter Department, CREDIT AND FINANCIAL MANAGEMENT, One Park Avenue, New York.

SUBTRACTION IS AS FAST AS ADDITION ON THIS *NEW* BURROUGHS

AND IT PRINTS A CREDIT BALANCE



There are any number of jobs in an accounting department that this new Burroughs can handle with greater ease, simplicity and economy owing to its speed and ease of operation . . . and its exceptionally low price. In fact, many concerns find it both efficient and economical to use one of these remarkable machines on each desk.

There are many styles and sizes, with either wide or narrow carriage, from which to select a machine exactly suited to the type of work for which it is required.

For a demonstration . . . or for complete information . . . telephone the local Burroughs office or write to the

BURROUGHS ADDING MACHINE COMPANY—DETROIT, MICH.

Burroughs

TO SUBTRACT—Merely set up the amount on the keyboard and depress the minus motorbar. The amount is instantly subtracted, printed and designated by the symbol (—).

TO ADD—Merely set up the amount on the keyboard and depress the plus motorbar. The amount is instantly added and printed.

TO PRINT CR BALANCE—If the total of subtracted amounts is greater than the total of added amounts, the machine computes and prints the credit balance, automatically designating it (CR).

EXCEPTIONALLY FAST FOR MULTIPLICATION

Paging the new books

Reviews of the important books on business, to aid executives whose reading hours are limited.

This month's business books

"A NEW DEAL," by Stuart Chase, published by the MacMillan Co., New York. Price $2.00.

"MONEY FOR TOMORROW," by W. E. Woodward, published by Liveright, Inc., New York. Price $2.00.

In this department, it is customary to feature in each issue one book as "this month's business book." This month, however, I have found it difficult to make a choice between the two books listed above. The element of timeliness in relation to present business conditions and development is so significant that one book cannot be held over until next month. The merits of both treatises are of such palpably high calibre, that one of them cannot be justifiably featured to the exclusion of the other.

Stuart Chase wants "A New Deal" so our people will have "Money for Tomorrow." In order to get "Money for Tomorrow," Mr. Woodward insists that we must have "A New Deal." Both authors quote each other in their respective books. From the very first chapter in each book, the reader is aware that Mr. Chase and Mr. Woodward are setting out toward the same destination. Their conclusions prove that they have reached the same destination, although they have arrived at different depots. They have not traveled the same road or even parallel roads, but the two mental journeys upon which they take the reader provide some of the most interesting and challenging experiences in current economic literature.

Both men are clear thinkers. They know how to write. They vigorously attack every form of traditional thinking. Both authors advance many arguments that will probably both sock and disturb you. You may not agree with them some of the time, but you will think with them all of the time. They have done a sterling service in stripping our economic ideas, experiences and institutions of superficial conceptions.

Mr. Woodward begins "Money for Tomorrow" with this statement—"I hope to God nobody will enjoy reading this book." He says that all he wants to do is to present a handful of facts and four or five ideas that are so hard and gritty you are not likely to forget them. He does just that.

He sets up the conventional answers to our perplexing economic questions as if these answers were a row of tenpins, and then proceeds to bowl them over without mercy. He spares no one in his criticism of our business, industrial, and government leaders. He calls Charles M. Schwab a Pollyanna, and says that he is an ignorant person. President Hoover and several members of his cabinet come in for their share of Mr. Woodward's scathing criticism.

The violent instability of our price level, Mr. Woodward contends, is one of our major problems. Tersely, he tells what he believes must be done to correct the gyrations and fluctuations of the price level. He gives us a new conception and definition of over-production. With sound statistical proof, he clarifies our over-production problem and tells what must be done to solve it. In his chapter on "Economic Delusions," he advances understandable arguments against the savings fallacy, the wage-reduction fallacy, and the competition fallacy. Following this, he distinguishes between real and apparent wages. If you are in doubt as a result of all the muddled discussions about wages, Mr. Woodward will set you right.

Our dilemma of foreign debts does not mystify Mr. Woodward in the least. In broad strokes, he paints Uncle Sam as an international Santa Claus. He declares that too much of this country's economic thinking is done in England. He punctures the balloon argument that German reparations have any significant bearing on the debts owed us by our allies in the Great War.

After considering the stock market as one of the potent factors in our cataclysmic deflation, he analyzes the consequences of deflation from the six bases of unemployment, agricultural depression, the banks, real estate, merchandising and foreign trade. Throughout the book, Mr. Woodward has been just as bold with his constructive suggestions as he has been with his destructive criticisms. He tells what he thinks should be done, and italicizes his recommendations so that the reader can't possibly miss his arguments. He states—"Our immediate objective should be a raising of the entire price level." Upon a foundation of economic experience and economic laws, he constructs a mechanism for raising the price level. He outlines a program for transforming our acquisitive society into a functional society in which business and industry are regulated in the interest of the public. He favors the repeal of the Anti-Trust laws and the creation of monopolies in all the basic industries. At first this may sound a little radical to you, but the author supports this contention of his with sound facts and arguments. Maybe, Mr. Woodward is wrong. But after reading his book, I will guarantee that you will have to think more comprehensively than he did, if you are to find flaws in the structure his carefully-analyzed arguments have created.

Mr. Chase, in "A New Deal," begins by asking the question—"What is an economic system for?" He states that an economic system should be a functional organization to eliminate poverty, level out the wild ascents and descents in our economic curve, and to bring the greatest degree of welfare to the maximum number of people. Broadly stated, the means and methods of doing this is functional economics.

In his first chapter, Mr. Chase describes and analyzes the sixteen ways in which men make money in our present economic system. He then states that there are only five ways of getting rich, to which no one in his right senses can seriously object. Throughout his book, Mr. Chase shows how the basic germs of our multitudinous economic troubles are rooted in the sixteen ways of making money. *(Cont. on p. 38)*

Bond to win!

by THOMAS J. SAVAGE,
Royal Indemnity Co.
New York, N. Y.

Mr. Savage

Insurance is one of the foundation stones of credit. In various lines of activity, insurance—life, health and accident, fire, marine, public liability, automobile and various other casualty indemnities—is insisted upon before credit can be secured.

Whether or not insurance against loss due to dishonesty (particularly dishonesty of employees) is required, it is difficult to say, but by those who are discerning the value of fidelity insurance it is beginning to come into its own and has become a necessity and an essential in the development of the credit structure of the country. The public is becoming educated more and more in the use of corporate fidelity bonds and is beginning to realize the benefits to be derived from this form of protection.

Losses due to dishonesty cannot be accurately determined because aside from the statistics maintained by insurance companies, there are no available statistics giving total number and amount of dishonesty losses throughout the country each year. It is estimated, however, that embezzlement losses in the United States total two hundred million dollars annually. The amount of fidelity losses paid by surety companies on these items does not exceed fifteen per cent of that amount, so that the bulk of losses must be absorbed elsewhere.

It is obvious, therefore, that when credit is sought, protection against dishonesty on the part of trusted employees by corporate fidelity bonds should be the subject of careful inquiry. Corporate fidelity bonds today cover a wide field which may be divided into the following general classes:

Financial institutions which include banks and insurance companies, building and loan associations and all companies engaged in the handling of money.

Railroads, public utilities, fraternal organizations which include many secret and non-secret fraternal organizations as well as all public benefits such as educational societies, colleges, schools, labor unions.

Mercantile, manufacturing and miscellaneous which heading takes in all kinds of general business, mercantile establishments, manufacturing plants and sales organizations.

As a general rule a large employer almost always carries fidelity bonds covering dishonest acts of his employees, but it is obvious, from a credit standpoint, that the small employer needs this protection as much as the large employer, if not more so.

Credit men today are asking—have you bonded your employees? They know that a dishonest employee can bring about commercial disaster more easily than can a loss by fire. From a fire there is usually some salvage and always some insurance; as against a defalcation, there is just a total loss unless the defaulter was bonded. It is, therefore, not safe to take any credit risk without knowing that a reputable surety company is guaranteeing the honesty of employees of the person, firm or corporation seeking credit.

Fidelity bonds will not stop dishonesty, but they do pay losses resulting from dishonesty, and to that extent play an important part in the extension of credit.

"Making conversation" is an art at which few are good.

—*William Feather*

Insurance digest

Inaugurated because of the credit fraternity's close contact with the insurance field and need of information about it.

Record of stock fire insurance

At the recent 1932 annual meeting of the National Board of Fire Underwriters, President C. W. Bailey paid a notable tribute to the fine record made by stock fire insurance during the current period of business depression. After reviewing the insurance situation, with premium income reduced, losses increasing and asset values depreciated, he said:

"And yet, if we calmly and dispassionately review and consider the actual facts of the achievement of stock fire insurance in America during the past two and a half years of deepening economic confusion and uncertainty throughout the world it quickly becomes apparent to us that not the slightest real ground exists either for dissatisfaction with the record the companies have made under circumstances of extreme difficulty or for discouragement as to the future.

The truth is that during this period of well-nigh unexampled business contraction, depression and disaster stock fire insurance stands almost alone among the great business groups of the land as not having failed to fulfill a single one of the vast obligations to which it was committed and as not having inflicted a single dollar of loss upon the public which looked to it for the protection of its most vital interests. In these regards stock fire insurance is now giving a fresh demonstration of that unshakable strength and dependability which have been found to characterize it in every previous period of financial upheaval for more than a century past.

"Once more those of us who have the responsibility of administering the great system of stock fire insurance may say with justifiable pride, 'not a dollar has been lost to the public through the failure of any member of our organization.' This despite the enormous losses to which the people of this country have been subjected during the past two and a half years by reason of the sharp depreciation of security and commodity values, the contraction of industry and trade, the widespread unemployment, the failure of numerous banking, industrial and commercial enterprises, and other similar consequences of the depression.

It goes without saying that the stock fire insurance companies themselves have not been immune from the disturbing effects of violently declining security prices, sharply contracting values for insurable property of all kinds, an extensive lessening of the volume of production and distribution of goods, and the consequent throwing out of balance of premium income as against operating costs. None the less, the companies as a body have so conducted their affairs that not a single one of them has been compelled by the extraordinary conjunction of unfavorable influences to plead inability to fulfill the terms of its policy contracts to the last dollar."

British losses show decline

The most costly individual fire in Great Britain in July occurred at a London lamp factory and was estimated to have cost $275,000. A large number of serious fires contributed to a total of $2,255,000, which compares with $4,530,000 for June, the largest monthly figure for the first six months of the year, and with $1,155,000 for July of last year.

These estimates only take into account fires in which the damage amounted to $5,000 or more. According to the estimates in the *Times*, in which 60% is added in respect of the large number of fires costing individually less, the total cost of all the outbreaks in the United Kingdom and Ireland during July becomes $3,610,000. The corresponding total for June was $7,250,000.

Most fires are kept under control

While in virtually every city in the United States there are blocks or sections where sweeping fires similar to that which demolished a portion of Coney Island are possibilities, fire departments generally are successful nowadays in keeping the flames within the confines of the buildings where they originate, according to the Fidelity-Phenix. Surveying the reports of nearly fifty leading cities for 1931, the company found that, on the average, only about 2% of the 184,220 fires that occurred, spread from the original structures to other buildings. This represents one in every fifty blazes.

Such control may be attributed to several factors, says the company, including greater efficiency of fire department extinguishing methods, better extinguishing equipment and more fire-resistive construction.

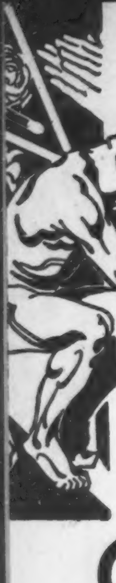
The highest percentage of spreading fires in these reports—8%—was shown by Houston, Tex., where there is much frame and other burnable construction, and this factor is also reflected in the records of other southern cities. New Orleans had a ratio of 6%; Louisville's was 5%; St. Louis' the same; Memphis showed a figure of 6.3% and Nashville 5.7%.

Greater New York reported that 1.4% of its 30,994 fires communicated to buildings adjoining or nearby the structures in which they started, San Francisco 2.5%, Hartford .5%, Chicago 2.4%, Boston 1.5%, Detroit 4.5%, Cincinnati 1.2% and Seattle 1.8%.

Insurance engineers who pointed out the dangers of the section of Coney Island where the conflagration broke out, say that everywhere there are what they call "black blocks" containing hazardous structural conditions and no fire-stops in the shape of brick, stone or concrete buildings or open spaces, the possibility of sweeping fires is always present. As in the case of Coney Island the only thing lacking is the originating spark or flame and that, it is declared, usually develops through someone's carelessness. It is only a question of time, during which the Fire Demon patiently awaits his opportunity.

False fire alarms cost many millions

Every time a fire department responds to an alarm it costs a municipality about $50, it is estimated by insurance engineers, and on this basis fifty leading cities throughout the nation last year were taxed $2,412,950 for unnecessary calls on their fire fighters, according to a compilation (*Cont. on p.* 37)



Our readers think

I wholly disapprove of what you say and will defend to the death your right to say it.—Voltaire to Helvetius

Thank you, kind sir

Dear Sir:

Just a few moments ago someone put on my desk a copy of the August issue of CREDIT.

As I looked at the cover, I was quite startled at its originality. I don't know who's responsible for it, but it's one of the cleverest things I've seen in a hundred years or so.

I just can't refrain from handing you my congratulations.

EDWARD J. HOFF,
Vice-President,
THE CENTRAL TRUST COMPANY,
Cincinnati, Ohio.

Creditor lethargy

Dear Sir:

In your June issue, Mr. Charles A. Colton says, "As I see it, a 'no asset case' will be just as much as 'no asset' case after the appointment of several thousand government officials as it was when it first goes into the bankruptcy court."

Also in your June issue, the article 'Bankruptcy bookkeeping' mentions the notorious lethargy of creditors in bankruptcy proceedings.

Mr. Colton referred to the proposed revision of the bankruptcy act which provides for certain new government employees to perform functions, the responsibility for which has heretofore been vested in creditors. The latter article referred to a delicate subject in no uncertain terms and rightly placed the neglected burden where it belongs and adds that the situation is ideal for creditor control, but too many of them are (too busy) competing for business. The parenthetical remark is mine.

Having previously been in the government service and charged with the responsibility of investigating violations of the bankruptcy act, and later employed by the Fraud Prevention Dept. of the National Association of Credit Men, I feel that I am in a position to comment constructively on the subject involved. The record of the Fraud Prevention Department should convince any fair-minded person of the error under which Mr. Colton is laboring. If the proposed new government examiners should do their work as efficiently as the investigators of the Fraud Prevention Department did their work, is it not apparent how much more assets than the $1,850,000 recovered by the Fraud Prevention Department should be recovered by the examiners whose number will exceed the investigators several-fold?

Consider also that the recovery of assets by the Fraud Prevention Department was only incidental to the development of evidence of criminal violation and if the evidence had been presented before Referees instead of given in strict confidence to the U. S. Attorneys, the amount of recoveries would have been multiplied several times.

As an example of the manner in which creditors interests in bankruptcy are handled under the present law: It has been next to impossible to get bankruptcy trustees to examine the contents of a bankrupt's home or premises other than the store, because they considered themselves only trustees of whatever assets were voluntarily turned over to them and those assets which might be discovered as a result of examining the bankrupt before the Referee. The matter of the bankrupt books and records also is one deserving of much comment, but I will confine myself to the observation that in most cases trustees have failed to obtain or consider the importance of obtaining and examining said books and records unless someone, creditor or otherwise requested it, and then they would be unable to determine if they had all the records and the usual comment is that the books and records contained no information of value, or one could get no information from them.

In almost every such case, the Fraud Prevention Department developed important evidence from the books and records, and in many cases, the audit of the books and records resulted in the development of evidence sufficient to prosecute and convict, which would not have been discovered or developed, but for the books, and in such cases the books and records would never have been taken from the bankrupt but for our persistence.

Many credit managers have the idea that the U. S. Bureau of Investigation can replace the Fraud Prevention Department. This is a fallacy, for that bureau may not accept for investigation cases which fail to disclose practical information sufficient to prove the concealment of assets. The mere discrepancy appearing between figures in a financial statement and figures in bankruptcy schedules is not evidence sufficient to prove a concealment, however. This is all the information that was supplied by creditors to the Fraud Prevention Department in most cases. From that data most of the prosecuted cases were developed to the point of acceptance by the Government agencies. That is where the principal function of the Fraud Prevention Department is performed, and no agency already established or contemplated can perform such a function.

Had not the "notorious lethargy of creditors" been supplemented by the activity of the Fraud Prevention Department, most of the "no asset" cases would have remained "no asset" cases. Now that the said creditors have reverted to their "notorious lethargy" by refusing to support the Fraud Prevention Department, the "no asset" cases and the "small asset" cases will remain as such and the "smart" debtors will again achieve the ascendency over their creditors, unless the revision of the bankruptcy law provides for the employment of "examiners" at least, and the Fraud Prevention Department is rejuvenated.

As a matter of fact, both agencies are necessary to the proper administration of the bankruptcy to the best interests of creditors because the examiners will be necessarily engaged in performing their duties in all cases, and the majority will be ones in which members of the National Association of Credit Men will have no interest, whereas the Fraud Prevention Depart-

ment representative could concentrate on his members' cases and bring attention to their importance when assets have been concealed.

As a liaison agent and as a specially trained investigator, the services of the Fraud Prevention Department representative would still be as valuable as heretofore. There are also the criminal cases not involving bankruptcy which should be properly investigated and presented. In violation of the mail fraud statute, the government examiners may not examine them, and the post office inspectors may not investigate them, unless two or more victims should happen to complain on the same case, and then the inspector to whom the case is assigned may have to hold it in abeyance for a long time before he can work on it, which is often the case, because he is required to work on various other matters.

The only positive and complete means of preventing crimes against credit would be for creditors to give credit only to those who will not cheat them. That brings up the problem of finding a Diogenes to rely on in granting credit. If we concede that there is no manner in which the function of a perfect Diogenes can be performed by man, or agency, we must try to ascertain the closest possible safeguards for our receivables. The safeguards that might prevent most credit losses are available before credit is granted and before the debtor becomes hopelessly involved, but they are often woefully disregarded or "ignorantly" used; otherwise, we would not have received during the course of most of our investigations contents of many credit files which waved the red flag of danger, or contained no information of any value.

In conclusion, I am forced to become trite by saying that as long as creditors fail to investigate before investing in debtors' business, and as long as the "notorious lethargy" continues, "no asset" and "small asset" cases will, like the poor, always be with them; and even though creditors correct their own faults as far as humanly possible, they will still be victimized by their debtors to a certain extent so long as human nature remains imperfect, and always, therefore, creditors shall require an adequate force of specialists to protect their interests and force debtors to disgorge all of their assets when liquidation becomes necessary.

Sincerely,

W. D. CAWLEY.

Collection, sales survey

(*Continued from page 25*)

Omaha, although there is a spirit of hopefulness prevailing.

NEW YORK: Binghamton reports collections fair, with two sections reporting collections good. Sales are fair. Collections in New York are good and sales fair. One section reports sales good with the collection turnover identical with last year. Bankruptcies have been greater in this section.

NORTH CAROLINA: Collections and sales in Charlotte have improved somewhat.

TENNESSEE: There is a slight improvement in sales in Chattanooga, especially the retail sales. Collections are slow. Memphis reports collections slow and sales fair. The general outlook is optimistic.

TEXAS: There has been a decided pick-up in collections and sales in Austin due to the rise in cotton. The Dallas market wholesalers have just reported one of the best buying seasons in two years. Collections are fair. Ft. Worth reports the following: "Collections on current accounts continue good, with a decline in sales of approximately 30% over the same period last year. Jobbers and manufacturers are doubtless carrying receivables which are of long standing, but with good prospects for a large cotton crop, and a fair price for this commodity practically assured, some of these old receivables will be turned into cash before many more months have passed. Everyone seems optimistic for the immediate future, and with anything like a fair price for cotton this Fall, business is bound to be better." Waco reports "prospects look better for sales and collections, when the cotton crop begins to move all over Texas. If the price stays around 7½ or 8c, we will see quite an improvement". Wichita informs us that sales have improved and merchants plan to abandon the "sale" idea and expect to make a profit on merchandise. They also expect to price their goods instead of letting the public set the price. It looks better in this section than it has in the past few years. The farmers are raising cotton on a basis of 4c a pound, but it now looks as though they will receive more than 8c. The prospect for crops is better than it has ever been in this territory.

Small plant protection

by FRED M. ROSSELAND
Newark (N. J.) Safety Council

It's a small plant! Probably fifty employees is the maximum at any time but the owner who is also the manager doesn't propose to have it burn down. Oh yes, he carries fire insurance but he feels that he cannot buy enough protection to offset the intangible as well as the real losses which he would suffer in case of a fire. What has he done about it?

The plant is protected by an automatic sprinkler system throughout although his engineer told him it wasn't compulsory. The latest type of hand fire extinguishers, water pails and sand pails, many more than is usually needed, are found in the little factory. Special conditions are being protected by extinguishing materials of the proper type and chemical content. The factory buildings are of the usual type so the manager consulted with fire protection engineers and installed fire doors, fire hoods for special operations and insists on a complete sweeping (and washing down where practical) of the entire premises. And the watchman records his visits to each part by "punching the clock." Oil waste is kept in cans and packing materials are kept in special tins. Inflammable liquids are kept in safety cans. All of these precautions are recognized by reductions in the insurance rates.

The manager is a smoker but he prohibits smoking in the plant at any time and personally enforces this rule on customers and others who visit the plant. He found it hard to prevent smoking at first but as soon as his people found that he meant business and that he personally obeyed the rule he had no further trouble.

Fire doors, automatic sprinklers and first aid fire extinguishing equipment and ventilating equipment are inspected regularly and frequently. He doesn't wait for the insurance inspectors but personally makes inspections several times a year and the weekly inspections are made by designated employees especially trained for the purpose who make their reports to him in writing. One of his hobbies is to require his soda acid extinguishers to be discharged before they are recharged—others are to examine the extinguishers whenever he passes them to be sure they are filled, and to test fire doors frequently.

The result is that this plant has never had a fire and his workers are "fire conscious" and convinced that the procedure is right. Is he justified? He thinks he is, for his fire record is perfect and his insurance rate is at the very minimum. He isn't a "fire bug" or a "nut" but his customers have learned from experience that he is dependable. Oh yes, I forgot to say what they made. This small plant is a machine shop. Metal doesn't burn but heat is used to work it. We had a million dollar fire some years ago in a nail factory (nail's don't burn either) and I think we all remember reading of fires in fire proof buildings in which steel furniture and steel fittings were used. Fires can be avoided and the so-called small plant needs fire protection and fire prevention even more than a large industry does.

Latin-American exchange

(*Cont. from page* 19) all shipments reported into this market are being made on a dollar basis.

HONDURAS: Exchange is not readily obtainable, although there are no government restrictions. Practically all of the current shipments into this market are being made on a dollar basis, although there is a small percentage who are remaining out of the market on account of the difficulty of obtaining exchange for payments.

MEXICO: Dollars are freely available, although by law the silver peso is legal tender and drawees may pay in silver to their legal discharge. There are no exchange restrictions on commercial payments.

80% of the current shipments to Mexico are continuing to be made on a dollar basis. About 15% are accepting payment for goods in local silver currency. About 5% indicate that they are not shipping into this market on account of exchange, which is not due to restrictions or inability to obtain payment ,but rather to price considerations.

NICARAGUA: With government restrictions in force since last November, and a scarcity of exchange, collecting banks are accepting deposits of local currency pending availability of dollar exchange.

With these conditions existing, 60% of the shipments reported into Nicaragua are going forward on a dollar basis. 20% are taking local currency in payment for current purchases, and 20% are not making shipments on account of the exchange situation.

PARAGUAY: Since June of this year, exchange is controlled by a Commission and a scarcity of exchange exists. About one-half of the current shipments continue on a dollar basis, and about one-half are remaining out of the market on account of the exchange difficulties.

PERU: While the gold standard has been suspended, and the exchange situation is difficult, there are as yet no governmental restrictions.

Of the current shipments to this market, 75% are being handled on a dollar basis, 10% are accepting local currency in payment for current purchases, and 15% are remaining out of the market on account of the present situation.

SALVADOR: No exchange restrictions are in effect, although the country is not on the gold standard.

About 85% of the current shipments reported are on a dollar basis, about 15% taking local currency for current business.

URUGUAY: Special exchange restrictions are in effect with preferential treatment for commodities considered as essentials. Scarcity of exchange exists.

35% of the current shipments into Uruguay are reported as handled on a dollar basis, 30% are taking local currency deposits for current transactions, and 35% are not making shipments to this market on account of the exchange situation.

VENEZUELA: No exchange restrictions are in force, although the banks have made a special agreement on accepting payments in local currency, and making remittances in dollars as exchange is available.

90% of the current shipments can be made and paid for on a dollar basis, with 10% accepting local currency in payment of current transactions.

There is no exchange problem in Cuba, Dom. Republic, Panama, Haiti or Porto Rico. Transactions in these countries are all handled on a United States Dollar basis, and U. S. currency circulates in these markets, or, as in Haiti, currency is on a fixed rate with the U. S. dollar.

As to the charts on pages 18 and 19, readers of CREDIT AND FINANCIAL MANAGEMENT may now place these charts together to form a continuous graphical record of credit and collection indices for the past years.

This foreign credit survey is based on reports of Good, Fair and Poor, compiled into percentage figures of all those reporting, with the results

indicated in the index figure, using the same basis as that of the previous surveys for comparative purposes.

The index of 250 or better covers a percentage of not less than 60 percent good and 40 percent fair, with the classification of "good."

The classification of "fairly good", covers the index of 250 to 225 with the percentage of 25 percent good, 75 percent fair.

Between the index figures of 225 and 200, the classification is "fair", with a minimum of 100 percent fair.

For the classification of "poor", the index figure is 200 to 175 with a low percentage of 75 percent fair, 25 percent poor.

Below this, the classification is "very poor."

In graphing collection conditions, the index of 50 percent prompt or fairly prompt has been taken as the mean for comparison. An index better than 50 percent prompt or fairly prompt appears above the mean line in the graph, while a less favorable index runs downward from the mean position.

Prepaid expense and current assets

(*Continued from page* 15) $5,000, and a current ratio of only 1.74 to 1 as compared with 2 to 1. But will anyone contend that A. B. Company actually has less current strength than C. D. Company? Now observe how this distortion is corrected by the proper inclusion of prepaid expenses:

A. B. COMPANY

Current Assets (as above)	$10,000.
Prepaid Current Expenses	1,500.
Total Current Expenses:	11,500.
Current Liabilities	$5,750.
Working capital	$5,750
Current Ratio	2 to 1

Can anyone demand a more conclusive demonstration? I herewith formally invoke all credit men, all bankers, all accountants; exorcise the prepaid expense bugaboo, and allay all fears over its correct treatment. Let's have an end of the working capital distortions provoked by obsessions about it.

Budgets for prosperity

(*Cont. from p.* 23) remind that the problems of making the above plant and equipment budget are based not only on accounting and financial considerations, but engineering factors of a most vital character.

(h) *Departmental Administrative Expenses Budget.*

The term administrative expenses is used here to broadly include all except the expenses not already grouped under the seven budgets already outlined. They would be listed under such headings as indicated below.

1. The costs of administration, offices of the president and vice-presidents, their assistants and staffs.
2. The costs of the purchasing department.
3. Financial offices including the treasurer, comptroller, cashier, auditor, statisticians, accountants, etc.
4. Credits and collection costs and office staffs.
5. Personnel and industrial relations office.
6. Engineering, scheduling, dispatching, planning offices.
7. The general offices.

Naturally the above costs would form a considerable part of burden or overhead costs which would be distributed to the manufacturing departments and scientifically allocated to specific jobs and processes.

(i) *The Cash Budget of Receipts and Disbursements.*

The summation of the above eight budgets comprises the operating budget of the firm. However, in the presentation of these eight budgets account has not been taken of the fact that the sales of goods on credit, and the length of production and marketing periods, do not guarantee that cash will come into the firm as needed. To assure that cash will be available to meet the disbursement needs it is necessary to study and plan the inflow and outflow of cash in relation to the requirements of the above eight budgets which comprise the operating plans for the year. From this cash receipts and disbursement budget it will be possible to plan short-time and long-time credit operations with banks, and in terms of the sale of bonds, mortgages, and notes to finance working capital and fixed capital requirements. Cash receipts should be estimated under the following heads.

1. Estimates of the amount to be collected, by months, from accounts receivable outstanding at the beginning of the budget period.
2. Estimates of the amounts to be collected each month from customers' notes outstanding at the beginning of the period.
3. Estimates of the amounts to be collected each month from cash sales.
4. Estimates of cash to be collected each month from accounts and notes receivable resulting from sales during the budget period.
5. Estimates of interest and miscellaneous income to be received each month of the budget period.

The cash disbursements should be estimated under such heads as the following:

1. Estimates of the amounts to be paid out in settlement of accounts and notes payable outstanding at the beginning of the budget period, by months.
2. Estimates of the amounts to be paid out in settlement of accounts and notes payable incurred during the budget period for purchases of materials and supplies, by months.
3. Estimates of the amounts to be paid out during the budget period for direct and indirect labor, wages and salaries, by months, and by weeks if possible.
4. Estimates of the amount to be paid out during the budget period for manufacturing expenses, by months.
5. Estimates of advertising and selling expenses to be paid out in cash, by months.
6. Estimates of the cash to be paid out for the costs of all administration operations, by months.
7. Estimates of cash payments for new capital equipment for the budget period, by months.
8. Estimates of miscellaneous cash disbursements by months.

In short, the cash disbursement budget reduces all of the eight operating budgets to a cash cost basis stating necessary cash outlays in terms of months or even weeks. As has already been pointed out, all of these eight budgets, and the cash budget, are subject to constant revision in light of new developments or unaforseen eventualities.

If the aforegoing budgeting operations have been accomplished it is then possible on the basis (*Cont. on page* 39)

In the modern office

An idea and experience exchange on equipment, system and management in the modern credit and business office.

Checks

Checks are as important as currency and should be given reasonable protection. Apart from the merits or demerits of any particular method, we believe it unwise to use mechanical protectors so obsolete that it is doubtful if parts for replacement could be secured. It is also bad policy to use any check writer without adequate ink since faint impressions create an opportunity for changing checks without detection.

"Going modern"

When the oldest savings bank in America, traditionally a most conservative institution, "goes modern" in a whole-hearted way, cautious executives fearful that a modernistic type of office equipment might seem flamboyant should gain courage. The Philadelphia Savings Fund Society, founded in 1816 and incorporated in 1819, has equipped its offices in its building at Twelfth and Market Sts., Philadelphia, in an up-to-the-second style. The general decorative scheme is that of contrasting black with chromium plate or stainless steel. Even such accessories as ash trays, inkwell bases, lamps, etc.—are of modernistic design and carry out the general decorative idea. The building itself is fully air conditioned. Thermostatic heat control permits each tenant to keep his office at the temperature desired. Every office has its own radio outlet. All of the bank's equipment is of the latest and most improved design with practically all known devices for saving labor and time. To such business houses as can afford it we recommend "going modern" in the fullest possible way. A scrapping of outworn equipment and the creation of a new atmosphere will, in itself, regalvanize morale to an amazing extent.

Watch your calls

A telephone watch which can be easily attached to any telephone is offered by Jules Racine and Company, of New York. The instrument has been developed in the Swiss Laboratories of the company and is used to indicate length of conversations. Just before the end of a 3 or 6 minute period a warning bell strikes and gives the user a chance to accurately check on long distance calls. Useful for any organization having a volume of long distance telephoning and wishing to check costs.

Cashguard chests

Diebold Safe and Lock Company, Canton, Ohio, have announced two new "Cashguard" chests specially designed for use where amounts of less than $500.00 are accumulated for bank deposit. All money above change requirement is placed through a slot into the locked chest which is securely locked by a duo-control key lock. Beyond the immediate control of the manager, the money is also beyond bandit's reach. "Cashguard" chests tend to prevent hold-up attacks and to defeat them, if attempted. They are installed in a concrete block encased in steel.

Salesmen's time

An address on "Distribution Cost—How Can We Lower It?" by Mr. H. A. Eccleston, Los Angeles Remington Manager, appearing in the September issue of *Office Appliances*, contains some pertinent suggestions for the saving of salesmen's time. One simple idea which seems worth adoption is the suggestion that "the party in charge of the reception room for salesmen use a report similar to the following:

Name ....
Firm ....
Position ....
Hour Arrived ..... A.M. ...... P.M.
Hour Contacted Purchasing Agent
...... A.M. ...... P.M.
Hour Departed ...... A.M. ...... P.M.

Used for thirty days this would show the Purchasing Agent if he was giving too much time to interviews and it would also show if salesmen's time was being wasted in waiting too long.

Irreducible minimum

Mr. Frank E. Tupper, Managing Director of the National Business Show looks for some improvement in the office equipment industry. "Nearly everything in almost every office," says Mr. Tupper, "has been reduced to just about the irreducible minimum, which, according to an old time efficiency expert 'is that state of affairs where anything over twenty-five dollars is a capital expenditure.' " Mr. Tupper points out that, apart from replacements, there are still offices interested in new equipment that will increase efficiency.

Woodstock improvements

A number of very important improvements are announced by the Woodstock Typewriter Company. The new Woodstock typewriter is fully enclosed—sides, front and back—with steel panels of a crystallizing enamel finish.

The segment of the machine has been designed for easier type bar action, and at the same time practically eliminates the possibility of eraser dust getting into the type bearings. The touch or key action of the machine has been made even more responsive.

Business thermometer

(*Cont. from page 9*) relieved. That there are still vast maladjustments, particularly in the railroads and in real estate, is evident. But it is reasonable to suppose that the gap between costs and prices is now small enough in a large area to permit the resumption of some considerable amount of profitable business.

"The real question which now presents itself is whether our government will devote its energies to holding conferences, appointing committees and issuing proclamations about that measure of recovery which events themselves are bringing about or whether it will turn its attention to those great problems within its own province which, unless they are solved, will make the recovery temporary and insufficient."

Ditto "I can't pay" stories!

"Can any of you," the teacher asked, "tell me what 'amphibious' means, and give a sentence to illustrate?"

A bright little Negro held up his hand. "I know, sah! It's fibbing. Mos' fish stories am fibious!"

Insurance digest

(*Continued from page* 30) made by the Fidelity-Phenix. Here, suggests the company, is a field for civic economy that would be helpful in the present emergency, the *Eastern Underwriter* reports.

In most large cities, the company adds, there are always many more alarms than there are fires, some of the calls being malicious, some accidental, and others due to excitement or hysteria. Occasionally, too, demands are made on fire departments for rescue work. All of these calls cost the taxpayers money for wear and tear on apparatus and equipment and also increase traffic hazards.

Records gathered by the Fidelity-Phenix show that New York City had 13,031 false or unnecessary alarms in 1931, estimated to have cost $651,550. Chicago's total was 4,325, costing $216,250; Cleveland's 2,917, costing $145,850, and Washington's 2,725, costing $136,250. The number of false alarms in the District of Columbia was declared to be unusually large in relation to the city's population, comparing its record with that of other cities.

The costs of false alarms to several other large municipalities last year were: Los Angeles, $78,150; Boston, $65,850; Detroit, $129,150; Newark, N. J., $33,400; Philadelphia, $89,900; Seattle, $23,350, and Milwaukee, $55,600.

Fire departments are called upon to answer every alarm received whether or not it is the result of a fire breaking out. Alarms should always be turned in immediately if a fire actually occurs, engineers say, but departments should not be called without proper reason. Particularly wasteful and annoying are the false alarms that are rung in from street boxes by hoodlums out of pure maliciousness.

Insurance conference

The following nationally known insurance leaders spoke on the general program topic, "Cooperation," at the morning session of the annual meeting of the Fire and Casualty Group of the Insurance Advertising Conference held at the Hotel Pennsylvania on Wednesday, October 5.

Paul L. Haid, President of the Insurance Executives' Association, selected for that responsible position in recognition of a breadth of experience and keenness of insight, drew upon that extensive knowledge in suggesting how insurance advertising activities may effectively be correlated with the many other undertakings of insurance companies.

James A. Beha, General Manager of the National Bureau of Casualty and Surety Underwriters, had a pertinent message in regard to the important work carried on by this bureau and how insurance advertising men may assist in its further development.

Walter H. Bennett, Secretary-Counsel of the National Association of Insurance Agents and widely known as a brilliant writer and forceful speaker, spoke from first-hand knowledge of the insurance agent's interests and problems in their relation to advertising and sales promotion material.

Percy Bugbee, Assistant Managing Director, National Fire Protection Association, an authority on fire prevention and related activities, put conference members in a position to cooperate more effectively in various fire prevention efforts.

The Chairman of this October 5 session was Mr. Clarence Palmer, Advertising Manager of the Insurance Company of North America. Mr. Palmer is also Chairman of the Convention Committee of the Fire and Casualty Group.

August fire loss $31,425,931

The reported estimated fire loss for the month of August amounted to $31,425,931, which is $1,556,503 less than the July loss, the National Board of Fire Underwriters announced recently. The total loss for the first eight months of this year is estimated at $310,078,321, as compared with $307,510,501 for the same period last year.

Mr. Gustetter

50 years of service

The officials of Credit and Financial Management and the National Association of Credit Men heartily commend and congratulate Mr. Frederick C. Gustetter, Secretary of the Phoenix Insurance Company of Hartford, Conn., on his 50th anniversary of service with his company. It will also interest readers to know that Mr. Gustetter has always shown a keen and co-operative interest in the activities of the Hartford Association of Credit Men. Mr. Gustetter is well known by leading credit executives in Connecticut. As an insurance official he has been able to make many important contributions to the work of organized credit in the state of Connecticut. (*Continued on page* 38)

YOUR NEW ADDRESS

To insure prompt service when your address is changed please fill this in and send it to us.

FIRM NAME__________

REPRESENTATIVE__________

OLD ADDRESS__________

NEW ADDRESS__________

P. O. BOX NO. (if any)__________

Mail to Circulation Manager
CREDIT AND FINANCIAL MANAGEMENT
One Park Ave., New York

This month's business books

(*Continued from page 28*)

At the conclusion of his first chapter he states—"I have come to the conclusion that the United States, functionally organized, could produce its present normal output with half its available man hours of labor, which is the same thing as saying it could double its output. This would be quite sufficient finally to abolish poverty, and provide a reasonably wide scale of living standards above a minimum budget of health and decency." Mr. Chase devotes the rest of his book to providing the background and advancing a program which he believes will accomplish this functional organization.

With our present economic system as the basis of his arguments, Mr. Chase sees three roads along which we might possibly travel to find an answer to our perplexing economic problem. He calls them the "Red Dictatorship," the "Black Dictatorship," and the "Third Road." The "Red Dictatorship," obviously, is revolution. He looks across the seas to Russia, and compares their great communistic experiments to what might possibly happen in this country if we were engulfed in revolution. He analyzes the probabilities of success and failure through a "Red Dictatorship" and reaches the conclusion that the road to revolution in this country is temporarily closed.

The "Black Dictatorship" is the dictatorship of Big Business. In this category he pictures our more dynamic bankers, industrialists and merchants forming a junta with the tacit assent of a tottering government. They would institute one variety of that final form of collectivism, control of economic activity from the top, presumably through the medium of a series of gigantic trusts. Mr. Woodward advances this same idea. Mr. Chase asserts that the weakness of this junta would be that the leaders would think only in terms of profitable consumers and never in terms of human beings. With a convincing array of facts, Mr. Chase tells why a "Black Dictatorship" could not succeed in this country at the present time.

He believes that our solution lies along the "Third (and last) Road," the drastic and progressive revision of the economic structure, avoiding an utter break with the past. It will not tear up customs, traditions and behaviour patterns to any such extent as promised by either the "Red" or "Black Dictatorship." Economic planning is the motive power that will guide us on our advance along the "Third Road." The three major fundamentals of this "Third Road" program are: (1) A managed currency. (2) The drastic re-distribution of the national income through income and inheritance taxes. (3) A huge program of public works.

In his chapters on "Blueprints" and "Control from the Top," Mr. Chase describes the major agencies necessary to place our society on a basis of functional economics. This "Third Road" program attempts to dissolve capitalism with a minimum of governmental interference. It shifts new purchasing power into consumers' hands and shifts new investments from socially destructive fields to socially useful ones, particularly public works.

In his concluding chapter, Mr. Chase tells what you, as an individual, can do about this whole program. He tells where each citizen can take hold. I am greatly intrigued by the thought of what would happen if half a million or one million American people took up and followed through the suggestions made by Mr. Chase in his last chapter. Something unusual would happen—I am sure of that. And after all, as the author says, "why should the Russians have all the fun of re-making the world?"

If you are afraid to read something that will make you think, don't buy these two books by Chase and Woodward. They are daring adventurers in economic thought. The similarity of their arguments and conclusions is uncanny. Here are two men who owe no allegiance to any creed, group or organization. They dare to say what they think and what will make you think. They are more concerned about their carefully-thought-out opinions, than they are about public opinion. They have pushed forward to new frontiers of economic thought. They walk side by side with the great English economist, John Maynard Keynes.

Insurance digest

(*Continued from page 37*)

Born in Cincinnati, Ohio, in 1866, Mr. Gustetter began his insurance career September 11, 1882, in the Cincinnati office of The Phoenix under H. M. Magill. After a brief apprenticeship in Cincinnati and as special agent in Minnesota and North Dakota, Mr. Gustetter was brought to the home office of the company and made Agency Superintendent of the western field. In 1916 he was elected Assistant Secretary and in 1923 advanced to Secretary. His many friends are felicitating him on his splendid career with a flood of complimentary business at present amounting to over $100,000 in premiums.

One hundred thousand dollars is a lot of money at any time; but today, particularly, it is a stupendous sum. A man, who in this era, can cause a group of agents to send in complimentary business with premiums aggregating over one hundred thousand dollars must be branded a wizard; or he must have some outstanding characteristic to account for his popularity. At least these are the natural conclusions, until one meets Mr. Frederick C. Gustetter—the man who has done this very thing. Certainly Mr. Gustetter makes no claim to being a wizard and it's hard to place a finger on one of his qualities that excels any other.

The outpouring of complimentary business in honor of Mr. Gustetter's fifty years of service with the Phoenix Insurance Company of Hartford is a spontaneous exhibition of affection—such demonstrations occur occasionally—and also evidence that Mr. Gustetter has many friends, whether they have met him personally or have come to know him through his letters. One can't exchange letters with a man for a great number of years without forming an opinion of his ability and some sort of liking for the personality he exhibits in his correspondence.

Mr. Gustetter is a product of a day when letters were more indicative of the personality of the writer—a day when there were no typists to provide convenient alibis, and men wrote what they had to say with pen and ink. That was a golden period in which many executives, now guiding the destinies of American insurance companies got their start. With his host of friends throughout the country, we join in wishing Mr. Gustetter a great many more years of active executive service in insurance work.

Globe & Rutgers in strong position

The Globe & Rutgers has issued its semi-annual financial statement showing, as of July 1, total assets of $58,791,139, capital of $7,000,000, net surplus of $7,754,937 and all other liabilities of $44,036,201.

Budgets for prosperity

(*Cont. from page 35*) of this data, and the financial statements of profit and loss and balance sheets at the beginning of the period, to anticipate the profit and loss statements and balance sheets are the close of the budgeted period. Even this may be done by months, quarters, and half-year periods, as well as for the full year. These anticipated balance sheets and profit and loss statements are the goals toward which the whole budgetary procedure point. Naturally comparative balance sheets and profit and loss statements in the past history of the firm would be carefully analyzed and checked against the estimated financial statements. Actual achievements each month, quarter, half-year, and year should be checked against the estimated financial statements as well as against the financial operating budget.

The use or reasons for balance sheet and profit and loss statement forecasts include the following: (1) it serves as a basis for checking the accuracy of other budget forecasts; (2) it affords a pre-view of the balance sheet ratios; and (3) it affords a basis for determining what loans will be needed and for how long such loans must be secured.

These preview financial statements should be carefully checked against certain standard ratios computed from the profit and loss statement and balance sheet history of the particular firm and similar firms in the industry. The present writer presented a full discussion of these financial ratios in the article previously referred to at the beginning of this article. They include:

1. The ratio of current assets to current liabilities.
2. The ratio of current liabilities, less inventories, to current liabilities.
3. Cash to accounts and notes payable.
4. The ratio of inventory to current assets.
5. The ratio of accounts receivable to credit sales.
6. The ratio of the average monthly inventory to the cost of goods sold.
7. Net profits as a percentage of gross sales.
8. Surplus net profit on common and preferred stock, after providing for interest charges on debt and all other fixed costs.
9. Operating net profits to the total assets of the firm.
10. Total sales to the total assets of the firm.
11. Total sales to the fixed assets of the firm.
12. The ratio of current and fixed debt to the capital stock and surplus of the firm.
13. The ratio of inventories to accounts payable.
14. The percentage analysis of the profit and loss statement expenses in terms of total sales.
15. The percentage analysis of the balance sheet in terms of total assets.
16. The ratio of fixed capital to total capital stock and surplus.
17. The ratio of depreciation, obsolescence, and depletion reserves to fixed assets.
18. The ratio of bad debt reserves to accounts and notes receivable, and to cash and total sales.

It has already been suggested that many types of industry and commerce may find it difficult to budget, forecast and plan with the suggested detail and completeness outlined up to this point. Yet the suggestions up to this point are not the fine-spun theories of a visionary. This practice is actually being employed by the larger and more successful firms of the nation. Moreover, until our economic system is planned for individual businesses, for industries, whole realms of our trade and commercial system, agriculture, finance and banking, our uncoordinated present economic structure will periodically collapse following convulsions of uncontrolled expansion. Depressions, wild speculation and expansion, waste and duplication of effort, production of wrong commodities and services, ill-timed production, wasteful exhaustion of natural resources, (*Cont. on p. 47*)

Answers to credit questions

Conducted by Walter C. Foster

The National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest are printed regularly in Credit and Financial Management. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principle of law involved.

Liability of carrier for monies collected

Q. What are the rights of a shipper of goods by motor truck in the event that moneys are collected by the trucking company for goods shipped C. O. D. and the trucking company goes into bankruptcy or receivership before the money is remitted?

A. If the moneys collected by the trucking company for the shipper can be traced and identified, they can be recovered from the receiver or from a trustee in bankruptcy. If the funds cannot be traced or identified, the shipper has only a general claim against the insolvent estate. Misappropriation of moneys collected by a trucking company for C. O. D. shipments would be larceny or embezzlement.

Offsets in bankruptcy

Q. In the event that a national bank becomes insolvent and liquidation takes place, would money either in a checking account or in a savings account be absorbed by the bank as an offset against any indebtedness that a depositor may have in the shape of a loan from that bank? In other words, does it apply similar to offsets and counterclaims in bankruptcy?

A. The rule of offset, which applies in bankruptcy, is usually applicable in the case of the liquidation of an insolvent bank. If there are exceptions to this rule, we have not heard of them.

Checks

Q. What is the length of time that a check is considered a valid claim against the signer of the instrument? Where checks that are outstanding over a long period are not presented for payment, can the obligation be considered paid?

A. The established rule of law with respect to this question is that in the absence of a statute requiring presentation of checks within a fixed time, as between the holder of the check and the maker, the check can be presented at any time; but failure to present the check within a reasonable time exonerates the drawer from liability if the bank has failed in the meantime, or if any other circumstances have arisen which would result in loss to the maker of the check.

Coney Island ablaze!

(Continued from page 11)

The financial responsibility laws passed by eighteen of the states are going to be a boon to the people, but they do not apply until after the first accident. The first accident may be the fatal one.

While the depression psychology has had its immediate effect on the agent, the manner in which both agents and companies have stood their ground is a marvel. Compared with other businesses, the number of stock company failures is infinitesimal. The same is true of local agencies. There have been many mergers in the interest of economy. I predict there will be more of both company mergers and agency mergers.

By its very nature, involving the time element as it does, insurance was one of the last of the major businesses to be deeply affected and by the same token, will be slow of recovery. The havoc that has been wrought will have its effect for years to come, and the country will look to insurance to see it through.

If the price thought becomes too firmly fixed in the public mind, it is the insurance agent who must unfix it, and save his clients from the inherent dangers of assessment insurance.

The economy wave of today may be the conflagration of tomorrow. It is the responsibility of the agent to deflect that conflagration, as well as to sell insurance. Municipalities as well as the United States government, are seeing that the budget must be balanced. If, in their eagerness to effect economies, they do so at the expense of the safety of their citizens, there is trouble ahead.

If a municipal government economizes on a new school building at the expense of proper construction and due precaution as to the fire hazard, it will not only erect a shoddy building, but, as an inherent fire trap, a conflagration breeder, and a constant danger to the lives of the children.

If, in their vigilance to economize, the city fathers decide to operate with a less number of fire fighters than the need demands, the property of every citizen is in jeopardy.

If they permit their fire fighting equipment to become obsolete, their alarm systems to get out of condition, or fail to account for adequate water pressure, the same thing is true.

If the economy runs to the police force, even increased thefts, robberies and banditry must follow.

Therefore, it can be seen that for a long time to come, insurance likely will be paying for the conditions of today. No matter how hard the agent may try to prevent such eventualities, the city fathers are bound to economize, and it is too much to hope that in all cases the economy wave will not break along these lines.

In the general buck-passing that is going the rounds as to responsibility for present conditions, insurance has come in for some vicious and unjust attacks. The companies, have reduced their capital structures by upward of a hundred and fifty million dollars, passing the amount to surplus. The stockholders are voluntarily taking a loss in order that their loss-paying ability may be enhanced. Many are doing so while the necessity is not present, simply as a matter of preparedness. They are decreasing their own holdings for protection of the public.

How does the public accept this action? For example, the Republican Advisory Committee of New York County holds that this procedure impairs capital and creates an "artificial surplus," which "can now be utilized for the payment of dividends to stockholders." The insuring public should thank its lucky star that the companies are amply capitalized, so that they can continue unimpaired to exercise the real function of insurance, which is protection of the public.

Charles Wilson, president of the Insurance Policyholders' National Protective Association, in a recent radio broadcast, said that his organization retained a corps of actuaries and statisticians to analyze the semiannual statements of the companies to be sure that the companies in which members carry insurance are solvent.

"This is not an easy task," he said, "yet it is a task that we must perform, as we know of no other agency to which we can look for proper guidance. Surely we cannot look to the insurance commissioners."

If there is any source to which the public can look for guidance in this behalf, surely it is to the insurance commissioners. They are the states' appointed guardians of the public interest in the solvency of the insurance carriers. A higher class of public servants would be hard to find. To take just one of them—no statement that is questionable could get by the eagle eye of Insurance Commissioner George S. Van Schaick of the New York Department. He also has set up within the Department where it properly belongs, a

corps of analytical statisticians, and offered their services to the commissioners of other states. In all the states, the commissioners are cognizant of their trust, and such an attack on the honorable body of men who compose the National Convention of Insurance Commissioners is absolutely unwarranted.

It is a matter of common knowledge that the Massachusetts Compulsory Automobile Liability Law is a failure. It has increased accidents and claims, it has clogged the courts of the state, it has even disrupted the legal profession and resulted in the disbarment of former lawyers, turned ambulance chasers. Insurance companies have suffered inordinately and unjustly under its operation.

But now comes an eminent committee operating under the distinguished auspices of Columbia and Yale Universities, known as a "Committee of Distinguished Citizens," to study compensation for automobile accidents. The results of its investigation were published this summer by the Columbia University Council for Research in the Social Sciences. In its conclusions it pronounces the ultimatum that the Massachusetts law is not the failure it is supposed to be, and that it is by far the most advanced step taken in this country to solve the compensation problem. Verily, the workings of the pedagogical mind are beyond the understanding of practical business men.

However, within the insurance business, the cloud is showing its silver lining in many cases.

The new conditions have brought about a closer relationship between companies and agents. There is less bickering within the business, less petty strife. Both branches are working with a will, and together, to come through with standing and integrity unimpaired.

Companies which, along with other businesses, have depended for their profits mainly on income from investments, have taken up what for a time appeared to be the lost art of underwriting.

There will undoubtedly be a weeding out of unqualified agents. Companies are demanding underwriting at the source. Their rejection of unfavorable business may be a hardship now, but its ultimate outcome will beneficial.

A new realization has come to the insurance business (casualty) and agents that the public must be made to see that it makes its own rates, and that the highway accident death toll is intolerable. In a spirit of humanitarianism, insurance must lead the way. It cannot be accused of selfishness, because as the accident frequency is abated, rates go down, and with them, commissions. Working with the National Bureau of Casualty and Surety Underwriters, the National Association of Insurance Agents has embarked on a highway safety campaign that is sure to bring good results.

Finally, out of the present economic disaster, I see a new era facing the competent local agent. Never in all history has the assured so deeply felt his dependence on the insurance agent as in his present plight. It is a simple matter to buy insurance, but when the time comes, as it has come, for reducing coverage, the assured has learned that he must have it carefully analyzed by a competent insurance agent in order to determine where the reduction may be made with the least danger of loss. In other words, if ten different forms of coverage are carried on in a plant, some of them must be less important, even in proportion to the premium, than others.

The public now looks to the well informed agent to study the need for insurance and to judge the proportionate danger from possible loss.

This is just what such agents as are members of the National Association are doing for their assureds throughout the length and breadth of the country today. The so-called depression is demonstrating every day that the insurance agent is no mere peddler of goods. He is proving himself "guide, philosopher and friend." His reward will come when business hits the up-trail.

Reconstruction financing

(*Cont. from p.* 13) 5,000 inhabitants. So that isn't true.

Now, then, the loans to railroads. They are made with the consent of the Interstate Commerce Commission and are not only relief loans but constructive loans and are loaned frequently on condition they reconstruct their finances; to pay interest on bonds and notes, to complete projects already started, because they will not loan money to start a project.

This corporation reports to Congress quarterly, works in connection with the Federal Reserve; if there is room they will house with them and use their splendid check up system and credit files, but there is no other connection.

On April it had put out $370,000,000 of its capital in contracts and paid out $285,000,000. Fifteen hundred and twenty banks have been helped to the extent of $243,000,000, less $10,000,000 paid back. Twenty railroads have been helped to the extent of $77,000,000. Building industry has been helped to the extent of $17,000,000. Twenty-eight insurance companies have been helped to the extent of $11,000,000.

On June 7, when Mr. Dawes resigned, the statement was made that $670,000,000 have been put out to help 10,000,000 people, and that $68,000,000 had been poured into agriculture to help 450,000 farmers and that $500,000,000 had been put out to help 3,000 banks and $170,000,000 to the railroads.

On February 27, there was passed the Glass-Steagall Bill, so-called because Mr. Glass, the Senator from Virginia, is a very prominent member of the Banking and Currency Committee of the Senate, and Mr. Steagall is the Chairman of the Banking and Currency Committee of the House. There are three clauses, all of them amendments to the Federal Reserve Act, the first one permanent and the other two just running a year to March 3, 1933, and are all in the nature of plumbers' repair jobs to correct unfortunate mistakes that would not have appeared any other time than this.

Now, when the Federal Reserve Act was passed there were just two kinds of paper admissible; commercial paper running three months and agricultural running six months, afterwards changed

to nine months, and then when the war came along in order to hold up the price of Government securities there was added U. S. bonds in 1917 and certificates as collateral on fifteen days' notes.

On December 31, last year, the last report, the banks of the United States had plenty of eligible collateral and had Government securities to the amount of $4,694,000,000 and other eligible securities amounting to $2,573,000,000, making a total of $7,267,000,000 of eligible paper. But there were other banks that did not have any eligible paper and had real estate paper that was not eligible, so it was necessary to pass the first section of the Glass-Steagall Bill, Section 10 A under which five banks may group themselves together and borrow from the Federal Reserve, being charged with it according to their deposits, or less than five and as many as two, provided they have 10 per cent of the deposits of the district, but in each case they must have the approval of at least 5 members of the Board at Washington. The rate must be at least 1 per cent more than the Federal Reserve rate and they must have in their portfolio no eligible paper.

Then, Section 10B gives the same right to single banks under the same terms provided those single banks have a capital of less than $5,000,000,000 and that excludes only 62 of the 7600 members of the Federal Reserve.

That brings us to Section 3 of the Glass-Steagall Act which has been more misunderstood both at home and abroad than any law the United States ever passed.

When the bill was originally passed, it was realized that the Federal Reserve notes are the backbone of the Federal Reserve, of the nation, and possibly of the whole world, and back of them had to be put the very best security in the world, and that was all gold, or 40 per cent of gold and 60 per cent of commercial paper, and they used commercial paper because it was obligated to pay itself off in three months.

Nothing succeeds like failure because that shows us where we made our mistake, so we had to amend this Act to the effect that where we did not have the commercial paper we could put up U. S. bonds and certificates of indebtedness.

The original law worked beautifully when we had 3,000,000,000 of commercial paper up with the Federal Reserve in 1929 and by a strange contradiction it just failed to work when we got down to $800,000,000, and we had to pass this amendment.

Why did that come about? There was a certain great nation which is the home of style in women's dress, hats, and lingerie, and art, and this great nation sold goods to England and accumulated in London enormous credits, payable in gold; and then for the first time in the history of the modern world this nation attempted, absolutely, to control the affairs of another nation through its finances and drag it over the coals, until she started a flight of gold from the Bank of England and drew her down below the $850,000,000 they think is necessary for their revolving fund, down to $700,000,000, and England went off the gold basis, and then this great nation took an enormous wallop when the Pound fell from the rate of $4.86 to $3.25. Then that certain great nation turned her kind attentions to you. (*Cont. on p.* 44)

Business insurance

(*Continued from p.* 17) pay a definite sum by merely proving that a loss has occurred it is necessary that the insured live up to the conditions of his contract. There must be a voluntary disclosure of material facts at the time the policy is placed and during its period of effectiveness, and the fact that the insurer might readily discover an error or change in conditions is not necessarily any relief to the insured. Insurance does not attempt to protect men against all consequences of accidents, therefore, certain restrictions are necessary which are in reality safeguards for the general buying public.

Unless the insured lives up to the warranties found in the contract some penalty must be imposed either in the form of restricted coverage or denial of liability at time of loss. If unusual conditions prevail in regard to the risk it is essential that permits be obtained from the insurance company to offset various exclusions which are found in the standard policy forms.

One of the most important features of all insurance is to be certain that all policies on a given risk are concurrent, that is, written exactly alike, in order that there may be no question as to the contributions by the different insuring groups. The centralized buying of insurance tends to eliminate the hazard of non-concurrency.

The nature of the risk affects the cost of insurance and it does make a great deal of difference where the insured is located, effective water supply, the type of construction of building, equipment, and the detailed nature of operations, while the moral risk is seriously affected by the presence of undesirable tenants in the same or adjoining buildings. A little planning will help to alleviate the risk.

We hear much about prevention of loss, but do we always realize the effect it has on our insurance costs? The rates are fixed according to experience and the entire cost must eventually be borne by the purchasers of insurance, therefore, it is extremely worthwhile to take such measures for prevention as are economically within reason. The control of the hazards is largely in the hands of the insured. Casualties do not occur at any stated time or place, and maintenance must be constantly on the management program. An inspection service within the organization should be constantly maintained and co-operate with the insuring company's representatives.

The Insurance Manager should be informed of changes which are contemplated in building construction, alterations, installation of machinery, relocation of property, changes in operation and use of hazardous materials. He will find that familiarity with the physical conditions of the risk is a great aid in securing full protection at minimum cost.

Making up sound value for insurance purposes requires careful analysis and consideration of many different factors, for the existing accounting records are not usually on a basis which will truly represent the insurable risks. A reliable appraisal will form the foundation for proper values, but because of frequent changes in volume and replacement values, it must be frequently revised.

It is important to have a common understanding with the insurers as to the classes of property to be included in the insurance protection and a basis of settlement value, which will minimize disagreement following a loss.

This is the ultimate test—What will be collectible under the insurance carried? Every effort should be made to keep down the loss by removal, salvage operations, or restoration of protection for that portion of the risk which is intact. Actions should be governed by such judgment as would be exercised if there had been no insurance, and there should be co-operative efforts to reduce the damage by refinishing or treating such property as may be usable.

As the Manager of (*Cont. on page* 44)

Business insurance

(*Continued from page* 42) Insurance is to have a part in making up the claim he should be promptly at the location of the damage and co-operate with other constituted authorities. While prompt settlement is to be desired, there is danger in too hasty action before the effects of the casualty are fully realized. Look over everything so that nothing may be overlooked. If there is a co-insurance clause which may become operative owing to under insurance, it may be to the claimant's advantage to place his losses at a conservative figure for the application of maximum values may result in the assured standing a greater proportion of the loss than he otherwise would.

When negotiating with adjusters on a schedule of losses, it would be more tactful not to press too vigorously on disputed values, although convinced of the justice of the claim. Reserve decision on disputed items until the list is completely gone over, for the adjuster is not presumed to be as familiar with the product or property as the owner, and some portion of the claim may appear excessive to him, while other items may seem to be undervalued, the grand total meeting with the approval of both parties. There is less likelihood of a serious dispute if the procedure is along the lines of common sense and co-operative spirit. Insurable interests exist when there is pecuniary loss, but there must be a reasonable proof of loss, and the burden of proof rests with the assured.

The insurers have the privilege of taking such property as they pay a full loss for and sometimes it is suggested that damaged goods be disposed of at auction, but it might be wiser to accept a smaller indemnity than to risk sales reputation by such disposal of special merchandise. The manufacturer has facilities for reconditioning to advantage of himself and the insurer.

The entire cost of protection must be borne by the users, a contribution being made by each one toward a general fund from which the victim of a casualty is reimbursed, providing there has been secured by him insurance which securely protects him against those losses. Eternal diligence is the price of insurance security.

When insurance buyers acquire a fundamental knowledge of insurance principles and establish themselves in the confidence of underwriters; when the underwriters have granted the insured coverage which fits the needs of the individual risk and supplied without prejudiced interests, then only will insurance protection be adequate and reasonable in price.

Reconstruction financing

(*Continued from page* 42)

You had about that time $743,000,000 that could be called in gold and they sent a certain great minister to make diplomatic concessions that could not be granted, under threat of drawing their gold, and they began drawing their gold. At that time you had plenty of gold. You had $4,500,000,000 of gold. France and the United States together, two nations, had $7,000,000,000 of gold, two-thirds of the $11,500,000,000 of monetary gold in all the world. But this gold was so fixed it was not any account to you or anybody, and gold, like anything else, isn't any account unless it is working.

What, after all, is gold? It is just a token; it is your medium of exchange; it is just a commodity, but because it is hard to get it is a precious metal and is accepted as the measure of value.

On February 24, the Federal Reserve had $3,140,000,000 gold, $850,000,000 in gold certificates, $407,000,000 in coins and $141,000,000 in gold back of the U. S. notes, or a total of $4,538,000,000 in gold when the Glass-Steagall Act was passed.

The gold certificates amounting to $850,000,000, by an act of Congress, could be changed to Federal Reserve notes and release 60 per cent of gold, which is $510,000,000 and that added to what is already free would make about $2,000,000,000 of gold free, and then this certain nation which had been worldly with her gold could take her gold and go hang so far as we were concerned and she immediately saw it and ear-marked $400,000,000 of it, and since then she had been asked to take her doll rags and go home, and she is withdrawing (June, 1932) all her gold except the working balance of about $8,000,000. The result of which, as someone said, was a slump in the depression.

The banks quit breaking and went back to the average of 1929, money began coming out of the hoarding. One billion and a quarter had been hoarded and later that quarter of a billion had come out, which is the difference of Federal Reserve outstanding now and a year ago. There isn't half that amount hoarded.

Rand McNally in their last statement said there were 3225 towns of a thousand or more inhabitants in the United States that have no banks. I reckon those are the towns from whom we used to get notations on the back of checks marked "No funds" that now come back marked "No banks."

Now, of the 3225 there were easily 2000 banks with an average of $200,000—two thousand would make $400,000,000. I suppose it is not extravagant to say $200,000,000 is being used by the people in ordinary affairs of business. There are groups of three or four counties that have no banks in Indiana, Illinois, Kentucky, Tennessee, Arkansas, Mississippi and Florida, states out West, and they have to use more money because they need it in the ordinary transaction of business. That will account easily for another $100,000,000.

There are $3,000,000 tourists in the United States; we can't cash their checks because we do not know whether they are good or not and they have to bring more money. That will account for another $100,000,000. Then your bootleggers and racketeers do not bank their money. You will find lots of them with $2500 to $5000 in their pockets; I think that accounts for another $100,000,000 so I think that is $500,000,000 of the amount we think is hoarded. That isn't hoarding at all, it is being used by people in transacting their business in the usual way.

There were $750,000,000 of gold that went out of this country last year but most of it came back. Fifty million dollars which came in in April has gone out in March. Last September, you had over five billions in gold. You have redistributed $1,100,000,000 that should have been distributed. That kept the rest of the world on the gold basis. The gold fight is over then. You have $3,900,000,000 left and that is more than plenty.

Then, 900,000 people have gotten jobs. There are one million people without jobs in this country all the time, and bear in mind with six million out of jobs, there are fifty million who have jobs.

Then, England was just coming along beautifully in the old days. When gold floated around, it used to go to India and never came back. In the last six months they poured (*Cont. on page* 47)


ASSOCIATION OF CREDIT MEN
ORGANIZED
VIGILANTIA

Court decisions and Washington notes

Court decisions

LANDLORD AND TENANT. COVENANT TO ERECT BUILDING. WHETHER PROVABLE CLAIM. (N. Y.) A petition to review the order of the Referee expunging the claim of the trustees of the Olmstead Estate. The claimants leased certain real property to Schulte-United Inc., the bankrupt. There was no acceleration clause in the lease making future rents immediately payable in the event of bankruptcy. The parties have stipulated that the question presently raised "concerns itself solely with the provability of the claim" and that the claimant may hereafter liquidate their damages in case they receive a favorable decision upon this review. *Held* that bankruptcy constitutes an anticipatory breach of an executory, bilateral contract, giving the solvent party a provable claim against the estate of the party who becomes a bankrupt, under Section 63-a-4 of the Bankruptcy Act. Central Trust Company v. Chicago Auditorium Association, 240 U. S. 581. On the other hand, a landlord's claim for future installments of rent which have not accrued at the time of the filing of the bankruptcy petition, is not provable. Claimants argue that the covenant to erect a building is not a covenant to pay rent, and that the rent case rule is, therefore, inapplicable, and assert themselves to be within the doctrine of the Chicago Auditorium case. It is doubtless true that a covenant to erect a building is not within the common law definition of rent as constituting "a certain profit issuing yearly out of lands and tenements corporeal." It is none the less true that, broadly speaking, a covenant for the construction of a building may be considered as additional rent by way of "compensation paid for the use of land". This case is not to be determined, however, by an abstract determination of whether the covenant in question falls within or without a given definition of the term "rent". The Supreme Court did not intend to withhold the application of the rule of the Chicago Auditorium case only from cases in which the claim is specifically based upon a covenant to pay rent. It held the rule inapplicable to all cases arising out of covenants in leases of realty where the same considerations make it undesirable to hold the claims provable in bankruptcy. Of such is the case at bar where the lessee promised to "erect a fire proof building of not less than three stories in height suitable for use as a salesroom or salesrooms and office space." The effect of this covenant was both to give additional compensation to the lessor at the end of the term and to afford him additional security in the interim for the payment of monthly instalments of rent. The uncertainty of the amount of the damage which the lessor will sustain through breach of this covenant is additional reason for holding this case to be within the class of cases to which the rule of the Chicago Auditorium case is inapplicable. Order of the Referee disallowing the claim is affirmed. *Matter of Schulte-United Inc.* U. S. Dist. Ct. Dist. of N. Y. Decided May 21, 1932.

CONDITION SALES CONTRACT. ACKNOWLEDGEMENT. VALIDITY (GA.) A trustee in bankruptcy appeals from a judgment affirming the referee in upholding the retained title of appellee company to a soda water outfit sold by appellee to the bankrupt. There is no dispute in the evidence. The contract of purchase concludes thus: "The condition of said purchase being that possession of said property is to remain in me until default in payment, but title to the same shall not pass to me, but until all said notes are paid shall remain in the said United-American Soda Fountain Co. (Signed) Gus A. Rocca. Witness his hand and seal this 4th day of September, A. D. 1931. H. V. Head, Jr. (Seal) N. P. State at Large. There was an acknowledgement of execution before the notary, dated September 4, 1931. The paper was duly recorded Sept. 11th, 1931, and before bankruptcy. The trustee contended that in fact the paper was not executed in the presence of the notary, and that a subsequent acknowledge of such paper before the notary is not allowable in Georgia, with the consequence that the paper was never properly recorded and was invalid as against the liens of the trustee, which is equal to that of a credit—or having judgment under 11 U. S. C. A. Sec. 75. He proved by the bankrupt and the notary that the bankrupt presented the paper already signed by himself and with the form of acknowledgement on it to the notary, and asked the notary to sign it for him, which the notary undertook to do. *Held* that the condition sale duly acknowledged was on its face entitled to record. The facts testified to did not disprove the certificate of acknowledgement. While the party executing a paper and the officer who certifies respecting it are competent to testify, the courts are slow to accept their testimony to overturn the certificate which they have put forth, and to show that the officer did not do his duty. That the notary did not see Rocca sign is immaterial. A signature made by another may be adopted by the maker of an instrument. But Rocca testified that he did sign. He did not formally request an attestation by the notary, or expressly acknowledge a previous execution, but he approached an officer who had acted for him before and presented him with a signed paper bearing on it an already prepared acknowledgement of execution, and asked his signature of the latter and afterwards accepted it as being what he wished. Without spoken words this conduct could mean nothing else than that Rocca had executed or was in the act of executing this paper for the purpose stated in it, and wished to acknowledge it to the notary that the latter might so certify. Such was Rocca's purpose and the notary so understood. No fraud was intended and no mistake was made. The transaction as expressed in the writing stands. Judgment affirmed. *Webb v. United-American Soda Fountain Company.* U. S. C. C. A. 5th Cir. (Ga.) Decided June 1, 1932.

PRIORITY. JUDGMENT CREDITOR. FAILURE TO SEIZE GOODS. LEVY MORE THAN FOUR MONTHS BEFORE BANKRUPTCY. HEAVY MACHINERY. FAILURE TO REMOVE. (ILL.) Did appellee J. W. Butler Co. at time of bankruptcy have a lien on certain of bankrupt's personal property by virtue of its judgment against bankrupt, secured more than four months preceding bankruptcy? Bankrupt was conducting a considerable printing establishment at Peoria, Ill. It owed appellee about $4,000. for which appellee obtained judgment in the Peoria County Circuit Court. December 16, 1927, judgment was rendered. December 17, execution was delivered to the sheriff, who then endorsed upon the back thereof the time that he received it; December 22 demand upon the bankrupt under the execution was made, and endorsed on the execution. March 13, 1928, the sheriff made a levy on a printing press and a machine, both of definitely described model and number—part of bankrupt's equipment—and on same day he endorsed the levy upon his writ and appointed a custodian to take charge of the machines, which were not then removed, but continued to be used as before in bankrupt's business. March 16, Dwight, Bros. Paper Co. obtained judgment in same court against bankrupt for about $5,000. and on April 21 execution on this judgment was delivered to the sheriff. May 23 levy by the sheriff under this writ was made on the personal property of bankrupt. May 26, the sheriff advertised the sale of the press and folder under the Butler Co. execution, setting the sale for June 5, 1928. May 29, involuntary petition in bankruptcy was filed against bankrupt, and on June 1, on petition of the receiver and the order of the referee in bankruptcy, the sheriff surrendered to the bankruptcy court possession of all the bankrupt's property in his hands, the order therefore reserving against the proceeds of sale of the machines any lien appellee had against the machines themselves. August 14, bankrupt's personal property was sold at trustee's sale, the press and folder realizing $3,700. August 27, 1929 the District Court denied the petition of the trustee to be subrogated to the right of Dwight Bros. Paper Co. under its execution. May 5, 1930, the referee ordered the allowance of appellee's claim as a priority upon the proceeds of the press and folder, which order the District Court affirmed. Sec. 9, Chap. 77, of the statutes of Illinois provides that "no execution shall bind the goods and chattels of the person against whom it is issued, until it is delivered to the sheriff or other proper officer to be executed; . . . . ." Section 8 provides: "Executions shall be made returnable ninety days after the date thereof." Appellant contends that the sheriff did not take physical possession or do anything to segregate the machines from the rest of the debtor's property, and that therefore there was no lawful levy upon them. The machines would have to be taken down and apart in order to be removed from the place, the expense of which would have been $500. or $600. *Held*, that fixtures and ponderous machinery, being incapable of actual possession, any notorious act of the officer asserting title under a levy is sufficient. When, therefore, the bankruptcy intervened, the lien of this levy, even though dormant through delay in the proceedings to realize on the property levied upon, had been revived three days before the bankruptcy, when the property was in process of being sold under the levy. The trustees therefore, taking under the rights of an execution creditor as of the date of the filing of the petition in bankruptcy took the property in question subject to appellee's lien thereon existing for more than four months before. Decree for appellee, judgment creditor, affirmed. *Matter of Schwab Printing Company (Frankel, Trustee v. J. W. Butler Paper Co.* U. S. C. C. A. 7th Cir (Ill.) Decided June 25, 1932.

Washington notes

70 million buy on cooperative plan

The world-wide movement toward cooperative buying now has more than 70 million partici-

pants, according to information received by the Bureau of Labor Statistics, Department of Labor.

The bureau has reports from 58 consumers' cooperative societies in the United States which last year did a business of $10,284,332 and saved their members $476,833. Of these 58 societies, 21 were retail distributive, 2 wholesale, and 35 cooperative oil associations.

Most of the members of cooperatives throughout the world are in the retail consumers organizations, as 21,051 of these reported an aggregate membership of 64,519,390 in 1930, with a business of $8,032,730,088. The number of members rose about 16,000,000 in 1930 and the business increased about $1,300,000,000, despite the fact that the number of societies dropped about 17,500.

Thirty-seven wholesale cooperatives accounted for a business of $6,889,728,707 in 1930, an increase of nearly $700,000,000 over 1929. Data for 75,739 cooperative societies of all types show a total business of $16,642,378,395, which was a gain of $2,555,798,578 over the corresponding figure for 1929.

Return address reduces volume of dead letters

Direct-mail advertisers, largest users of the postal service, by more careful mailing brought about a marked decrease in the number of dead letters received at United States post offices during the last fiscal year, according to a statement from the Post Office Department.

Reconstruction financing

(*Continued from p.* 44) into England some $150,000,000 to $200,000,000 of gold. The women even put up their jewelry and England had plenty of gold and she reduced her current debts from $625,000,000 to 400,000,000 and the first of March last she anticipated $150,000,000 of gold she owed the United States and France in interest and commissions. A Pound jumped 20c in one night.

When the history of this panic is written, you will find there are lots of districts that committed suicide because of loss of wealth and sense of proportion. If you are not going to have reconstruction, what are you going to have? There are those who contend we only stand in the way by postponing the evil day. It is only by destruction, they say that the world can be rebuilt. Let things go smash and build a new world on the grave of the old. That is a cruel philosophy.

After all, the most essential program of reorganization is ourselves. Underneath the daily store of strength and courage necessary for us to go through our daily affairs all of us have reserves that are tapped only by emergencies such as this. So, under the test of stress we surprise ourselves and the world by unsuspected capacity to rise to heights undreamed of—reserves that go toward reconstructing a world.

Budgets for prosperity

(*Continued from page* 39) unemployment and pauperism, insecurity of workers leading to poorer quality of services, unnecessary duplication of plants, equipment and costs, are all the result of an unplanned economic system. We have too long depended on competition as the shaper of the nation's economic affairs, and by law forbidden any attempt on the part of industry, finance, and commerce to coordinate their activities.

Because of the severity of the present depression much discussion and many books have been written suggesting that the industry, commerce, agriculture, and financial systems of the nation should be planned and guided. In his recent little book entitled "Business Adrift" Dean W. B. Donham of the Harvard School of Business Administration discusses our uncoordinated economic system and the possibility of national planning of industry. He feels certain that though we continue our belief in the competitive system, and private ownership of industry and commerce with its profit making motives, it is still possible to coordinate and plan production, distribution, consumption, employment and other similar matters by some permissive collective or cooperative method.

Other nationally known economists have recently expressed themselves as believing that without a national plan to control and balance production and consumption disaster may face the giant American economic system. These economists include Dr. R. G. Tugwell of Columbia University, Dr. Ernest Minor Patterson of the University of Pennsylvania, Dr. Frank D. Graham of Princeton University, Dr. A. C. Whitaker of Leland Stanford University, Dr. E. L. Bogart of the University of Illinois, Dr. Frank Knight of the University of Chicago, Dr. Lewis Lorwin of Brookings Institution, Dr. Charles A. Gulick of the University of California, Dr. Charles A. Beard, Stuart Chase, and others. Not all these economists urge controlled and compulsory industrial, agricultural, commercial, and financial planning under governmental direction. In fact, most of them are rather vague as to the machinery for effecting planning. Though they believe in the efficacy and necessity of a planned economic system many of these economists doubt that the practical details of compulsory economic planning can be worked out under the capitalistic system.

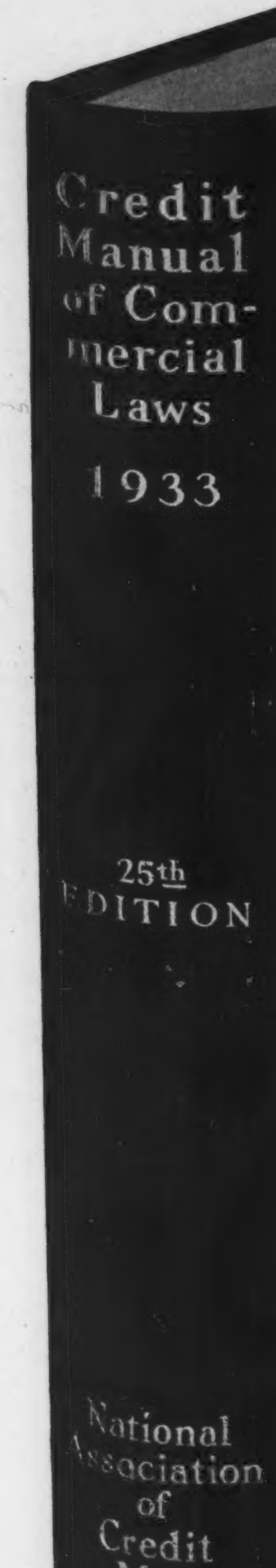
All of the men named above are academicians rather than practical business men. However, it is interesting to note that Dr. Julius Barnes of the United States Chamber of Commerce feels that business should be allowed to plan individual industries without governmental compulsion or direction, though perhaps with a modest governmental supervision. A committee of the United States Chamber of Commerce reported favorably on the establishment of a national planning body composed of representatives of industry, agriculture, commerce, labor, and finance, to be set up by industry without governmental intervention. Many others feel that the present anti-trust laws should be revised to permit industries to engage in collective agreements on production control, price-fixing, prohibition of the sale of goods for less than established costs, cooperative buying and selling, free exchange and discussion of prices, costs, business practices and policies. Still others feel that through trade associations and institutes every line of business could be planned and stabilized if permitted or even required to do so by law.

Mr. Gerard Swope of the General Electric Company has recently proposed that all interstate firms employing as many as fifty employees should be required to be members of a trade association which would be permitted, and in certain instances required, to stabilize and plan their industry. A recent speaker before the International Chamber of Commerce proposed that by international conference the agricultural systems of all nations be planned. Such an attempt has already been made in the case of sugar production.

Though the President of the United States regards the many suggestions for national planning and planning boards as a "Russian infection," the Russian experiment stands as a challenge to all capitalistic systems. It is to be sincerely hoped that our political and business leaders may be sufficiently impressed by the socialistic threat to set about to repair our tottering economic structure to the end that we may not again face the anomalous tragedy of business depression when our resources are unbounded, our wealth and capital exceed all past records, warehouses are running over with goods and wares, and yet millions are unemployed, thousands are in acute need, and the entire nation is in greatest distress.

Here's Help

for CREDIT EXECUTIVES



Crammed from cover to cover with quick facts for instant reference, the new 1933 CREDIT MANUAL of COMMERCIAL LAWS stresses the new importance of your legal rights, obligations and safeguards in these strenuous times. All Federal and State laws affecting credits, collections and sales are classified and interpreted so that you can tell at a glance WHAT TO DO and WHAT NOT TO DO.

BRAND-NEW FEATURES!

A set of 20 tested successful collection letters, all proven money-getters, now in use by members of the National Association of Credit Men. *These letters alone are worth the MANUAL'S cost!*

50 pages devoted to pointers on credit department organization and practice, made up of articles such as:

HOW THREE OUTSTANDING CREDIT DEPARTMENTS DO THEIR WORK . . . THE RETAIL METHOD OF INVENTORY . . . COST OF CARRYING ACCOUNTS . . . PROFIT VANISHING-POINT IN ACCOUNTS RECEIVABLE . . . HELP YOUR DEALER SELL . . . INSURANCE POINTERS . . . CO-INSURANCE CLAUSE EXPLAINED . . . CURRENT RATIOS . . . INVENTORY VALUATION.

A summary of state laws on the Misapplication of Construction Funds, compiled by Edward H. Cushman, Esq., of the Philadelphia Bar, an authority on building laws and legislation. (This material will not be found printed in entirety elsewhere.)

Have you up-to-date information on all state laws applying to Mechanics' Liens and Bonds on Public Improvements? Are you familiar with Exemption Provisions and with the latest facts concerning Conditional Sales? The MANUAL contains all these data, brought up to the minute. Accurate and complete revision has been made in all other vital sections of the MANUAL, including the following partial list of subjects:

Sales in Bulk, Chattel Mortgages, Claims Against Decedents' Estates, The Sales Act, Acknowledgment of Orders, Contracts and Cancellations, Contracts Made by Mail or Telegraph, What Constitutes "Signing," Negotiable Instruments Law, Checks Marked "In Full of Account," The Bad Check Law, Assumed or Fictitious Name Laws, The Bankruptcy Law, Names of Bankruptcy Referees and District Judges, False Financial Statements, Statute of Frauds, Statement of Financial Condition of Corporations, Rights of Married Women, Rights of Foreign Corporations, Trusts and Combinations, Assignments for Benefit of Creditors, Dunning by Telegraph, Newest Postal Regulations, Calendar of Corporation Reports and Taxes, etc.

The MANUAL will save you its cost many times over if it prevents even ONE loss, or enables you to recover even ONE bad account. Protect yourself—send in your reservation order TO-DAY.

REGULAR PRICE, $4 POSTPAID

Special advance order price until December 1st, $3.50.

The MANUAL will be ready for distribution December 5.

NATIONAL ASSOCIATION OF CREDIT MEN—One Park Ave., New York